RECORD AND BRIEFS

Supreme Court, U.S.
FILED
MAR 2 1 2016
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No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

The "patent exhaustion doctrine"—also known as the "first sale doctrine"—holds that "the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 625 (2008). This case presents two questions of great practical significance regarding the scope of this doctrine on which the *en banc* Federal Circuit divided below:

1. Whether a "conditional sale" that transfers title to the patented item while specifying post-sale restrictions on the article's use or resale avoids application of the patent exhaustion doctrine and therefore permits the enforcement of such post-sale restrictions through the patent law's infringement remedy.

2. Whether, in light of this Court's holding in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), that the common law doctrine barring restraints on alienation that is the basis of exhaustion doctrine "makes no geographical distinctions," a sale of a patented article—authorized by the U.S. patentee—that takes place outside of the United States exhausts the U.S. patent rights in that article.

RULE 29.6 STATEMENT

Petitioner Impression Products, Inc. has no parent corporation. No publicly held company owns 10% or more of its stock.

TABLE OF CONTENTS

Page

Questions Presented i
Rule 29.6 Statement ii
Table of Authorities v
Opinions Below 1
Jurisdiction 1
Statement 1
A. Legal background. 3
B. Factual background. 4
C. Proceedings below 5
Reasons for Granting the Petition 9
I. This Court Should Resolve The Conditional Sale Question. 9
A. The Federal Circuit's holding—that a patentee may avoid exhaustion by imposing post-sale restrictions when transferring title to the patented article—is plainly wrong. 10
B. The court of appeals rejected the longstanding view of the United States that *Mallinckrodt* is inconsistent with this Court's precedents. 18
C. The question is extremely important. 21
II. This Court Should Review The International Exhaustion Question 23
A. The Federal Circuit's holding is contrary to this Court's precedents. 24
B. The decision below rejected the argument advanced by the United States. 32

TABLE OF CONTENTS—continued

Page

C. The question is important. 32

Conclusion 35

Appendix A – The Federal Circuit's *en banc* decision (February 12, 2016) 1a

Appendix B – The Federal Circuit's *sua sponte* en banc order (April 14, 2015) 136a

Appendix C – The district court's conditional-sale decision (March 27, 2014) 140a

Appendix D – The district court's international exhaustion decision (March 27, 2014) 156a

TABLE OF AUTHORITIES

Page(s)

Cases

Adams v. *Burke*,
84 U.S. (17 Wall.) 453 (1873) 12

Becton, Dickinson & Co. v. *Eisele & Co.*,
86 F.2d 267 (6th Cir. 1936) 28

Betts v. *Willmott*,
[1871] 6 L.R. 239 (Ch. App.) (Eng.) 28

Bloomer v. *McQuewan*,
55 U.S. (14 How.) 539 (1852) 11, 12

Bloomer v. *Millinger*,
68 U.S. (1 Wall.) 340 (1863) 12

Boesch v. *Graff*,
133 U.S. 697 (1890) 8, 28, 29, 30

Bos. Store of Chi. v. *Am. Graphophone Co.*,
246 U.S. 8 (1918) 13

Bowman v. *Monsanto Co.*,
133 S. Ct. 1761 (2013) 3, 16, 18, 19

Curtiss Aeroplane & Motor Corp. v.
United Aircraft Eng'g Corp.,
266 F. 71 (2d Cir. 1920) 28, 29

Dickerson v. *Matheson*,
57 F. 524 (2d Cir. 1893) 28

Dickerson v. *Tinling*,
84 F. 192 (8th Cir. 1897) 28

General Talking Pictures Corp. v.
Western Electric Company,
304 U.S. 175 (1938) 17

Henry v. *A.B. Dick*,
224 U.S. 1 (1912) 11, 13, 14

TABLE OF AUTHORITIES—continued

Page(s)

Hobbie v. *Jennison*,
149 U.S. 355 (1893) 12

Holiday v. *Mattheson*,
24 F. 185 (C.C.S.D.N.Y. 1885) 27, 28, 30

Jazz Photo Corp. v. *International Trade Commission*,
264 F.3d 1094 (Fed. Cir. 2001) ..... *passim*

Kabushiki Kaisha Hattori Seiko v. *Refac Tech. Dev. Corp.*,
690 F. Supp. 1339 (S.D.N.Y. 1988) 28

Keeler v. *Standard Folding Bed Co.*,
157 U.S. 659 (1895) 11, 21

Kirtsaeng v. *John Wiley & Sons, Inc.*,
133 S. Ct. 1351 (2013) ..... *passim*

Leegin Creative Leather Prods., Inc. v. *PSKS, Inc.*,
551 U.S. 877 (2007) 23

Lexmark Int'l, Inc. v. *Static Control Components, Inc.*,
134 S. Ct. 1377 (2014) ..... *passim*

Mallinckrodt, Inc. v. *Medipart, Inc.*,
976 F.2d 700 (Fed. Cir. 1992) ..... *passim*

Motion Picture Patents Co. v. *Universal Film Mfg. Co.*,
243 U.S. 502 (1917) 13, 14, 16

Quanta Computer, Inc. v. *LG Electronics, Inc.*,
553 U.S. 617 (2008) ..... *passim*

TABLE OF AUTHORITIES—continued

Page(s)

Sanofi, S.A. v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931 (D.N.J. 1983) 28

Straus v. *Victor Talking Machine Co.*, 243 U.S. 490 (1917) 26

United States v. *Gen. Elec. Co.*, 272 U.S. 476 (1926) 13

United States v. *Masonite Corp.*, 316 U.S. 265 (1942) 21, 22

United States v. *Univis Lens Co.*, 316 U.S. 241 (1942) ..... *passim*

Statutes

17 U.S.C. § 109(a) 8, 25, 26

28 U.S.C. § 1254(1) 1

35 U.S.C. § 271(a) 3, 30

35 U.S.C. § 284 22

Other Authorities

1 Edward Coke, *Institutes of the Laws of England* § 360 (5th ed. 1656) 22

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Ian Barker, *The Global Supply Chain Behind the iPhone 6*, https://perma.cc/NT2H-VV2Q 33

TABLE OF AUTHORITIES—continued

Page(s)

Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 Rand J. Econ., No. 1 (2001) 33

Gene M. Grossman & Edwin L.C. Lai, *Parallel Imports and Price Controls*, 39 Rand J. Econ. 378 (2008) 34

Richard H. Stern, *Post-Sale Patent Restrictions After* Mallinckrodt*—An Idea in Search of Definition*, 5 Alb. L.J. Sci. & Tech. 1 (1994) 23

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-135a) is not yet reported. The opinion of the district court addressing the "conditional sale" doctrine (App., *infra*, 140a-155a) is unreported, but is available at 2014 WL 1276133. The opinion of the district court addressing international exhaustion (App., *infra*, 156a-169a) is reported at 9 F. Supp. 3d 830.

JURISDICTION

The judgment of the court of appeals was entered on February 12, 2016. This Court's jurisdiction rests on 28 U.S.C. § 1254(1).

STATEMENT

A valid patent provides the patentee with a monopoly over the first sale of any good that embodies the patented invention. If a competitor sells a product using the patented technology, the patentee may sue for infringement.

The "patent exhaustion doctrine" (also known as the "first sale doctrine") imposes a critical limit on the patentee's rights. It provides that the first authorized sale of an article exhausts the patentee's *patent* rights to that article. This doctrine enables resale of a car or a lawnmower or any other patented good without incurring liability for patent infringement. Absent patent exhaustion, every secondary market in patented goods would grind to a halt.

This case presents two different, but related, questions of very substantial legal and practical importance regarding patent exhaustion. Indeed, the questions are so consequential—and this case is such an ideal vehicle for resolving them—that the Federal Circuit, acting *sua sponte*, took the extraordinary

step of initially hearing this case *en banc*. The court received thirty-three *amicus* briefs, including a submission by the United States.

The first question is whether a patentee may circumvent the patent exhaustion doctrine by expressly specifying post-sale restrictions on the use or resale of the patented article at the time the patentee transfers title to the purchaser. Reaffirming its earlier decision in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), the court below concluded that a patentee may use patent law to enforce post-sale restrictions, so long as those restrictions are clearly communicated.

That holding squarely conflicts with this Court's consistent teaching regarding the scope of the exhaustion doctrine. As the dissenting judges put it, there is "no colorable basis for the majority's failure to follow the exhaustion rule for domestic sales as articulated by the [Supreme] Court in *Quanta* and numerous other cases." App., *infra*, 124a-125a. Indeed, the United States has twice asked this Court to repudiate *Mallinckrodt*, and it reiterated that position in its *amicus* brief below.

The second question presented is whether patent exhaustion applies to articles that a U.S. patentee sells abroad—the issue addressed by this Court in the copyright context in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). The court of appeals affirmed its decision in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), holding that a sale made by a patentee outside the United States does not exhaust its U.S. patent rights. That, of course, is the opposite result from the one reached by this Court in *Kirtsaeng*.

This holding also warrants review. *Jazz Photo* was wrong when it was decided—indeed, the Court's analysis in *Kirtsaeng* is controlling, because the patent law, unlike the copyright law, does not contain a statutory provision addressing exhaustion doctrine. The *Kirtsaeng* Court's determination that the common law rule against restraints on alienation "makes no geographical distinctions" (133 S. Ct. at 1363) is therefore dispositive here. The Federal Circuit majority's decision also conflicts with the position advanced by the United States in its *amicus* brief. And the question has enormous practical importance, because the majority's ruling enables a patentee to disrupt international commerce by improperly extracting multiple payments for the same good.

A. Legal background.

A patentee may preclude another from making, using, or selling an article that embodies its patented invention. 35 U.S.C. § 271(a). "Under the doctrine of patent exhaustion," however, "the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article." *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1764 (2013). That is because "the initial authorized sale of a patented item terminates all patent rights to that item" (*Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 625 (2008)), and the first sale "confers on the purchaser, or any subsequent owner, 'the right to use or sell' the thing as he sees fit." *Bowman*, 133 S. Ct. at 1766 (alteration omitted; quoting *United States* v. *Univis Lens Co.*, 316 U.S. 241, 249-250 (1942)).

The Federal Circuit has recognized two substantial exceptions to the patent exhaustion doctrine. First, in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976

F.2d 700 (Fed. Cir. 1992), the court of appeals held that a patentee may transfer title to the patented article and specify a putative post-sale reuse or resale restriction on the article that, notwithstanding the exhaustion doctrine, may be enforced by means of the patent laws. Second, in *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001), the Federal Circuit held that a patentee's U.S. patent rights are not exhausted when it sells (or authorizes the sale of) the patent article outside the United States.

B. Factual background.

This case concerns toner cartridges for laser printers—the part containing the ink used by a printer that is replaced by a new cartridge when the ink is used up—and Lexmark's continued efforts to "dominate[] the market for cartridges compatible with its printers." *Lexmark Int'l, Inc.* v. *Static Control Components, Inc.*, 134 S. Ct. 1377, 1383 (2014).

Because printer manufacturers often patent certain aspects of the toner cartridges used in their printers, the manufacturer may maintain a legal monopoly over the sale of new toner cartridges. Lexmark, a printer manufacturer, thus sells its new cartridges at a substantial premium, often charging hundreds of dollars for a single toner cartridge. After a cartridge is spent, however, "remanufacturers," may "acquire used Lexmark toner cartridges, refurbish them, and sell them in competition with new and refurbished cartridges sold by Lexmark." *Ibid.*

Impression, a small business located in Charleston, West Virginia, is one such remanufacturer. App., *infra*, 10a. Impression purchases cartridges that

Lexmark initially sold both inside and outside of the United States. *Id.* at 13a.

Lexmark, however, "would prefer that its customers return their empty cartridges to it for refurbishment and resale, rather than sell those cartridges to a remanufacturer." *Static Control Components*, 134 S. Ct. at 1383. It thus offers its customers the option to purchase a "'Return Program Cartridge' at a discount of roughly 20 percent, subject to a single-use/no-resale restriction." App., *infra*, 10a. These cartridges contain a restriction that "the buyer may not reuse the cartridge after the toner runs out and may not transfer it to anyone but Lexmark once it is used." *Ibid.*

Respondent maintains that its transfer of the Return Program Cartridges to its customers constitutes a sale of property; it specifically disclaims that the legal arrangement qualifies as a lease. App., *infra*, 11a n.1. According to respondent, a customer who purchases a "Return Program Cartridge" "is not absolutely required to return the cartridge to Lexmark." *Ibid.*

C. Proceedings below.

In 2010, Lexmark sued several remanufacturers, including Impression, for direct and contributory patent infringement. App., *infra*, 12a-13a. Only Impression remains in this case, as the claims against all other defendants have been resolved. *Id.* at 13a.

The parties entered various agreements that have "narrow[ed]" the "focus" of this dispute. App., *infra*, 13a. In particular:

- Only a "single count of infringement" remains against Impression, who does "not dis-

pute the validity or enforceability of the patents." *Ibid.*

- For present purposes, no one disputes that all relevant parties had adequate notice of the conditions Lexmark putatively placed on the Return Program cartridges. *Id.* at 14a.
- Lexmark does not assert that Impression's refurbishment of the cartridges—which includes "the chip replacement and ink replenishment"—"result[s] in new articles, which would be outside the scope of the exhaustion doctrine." *Id.* at 12a n.2.

As a result, the two questions presented by this petition are each independently determinative of the claims that Lexmark asserts against Impression; the conditional sale question resolves Lexmark's claim as to Impression's refurbishment of domestically-sold Return Program Cartridges, and the international exhaustion question resolves Lexmark's claims with respect to cartridges initially sold abroad.

1. The district court granted Impression's motion to dismiss as to the cartridges first sold in the United States. App. *infra*, 140a-155a. The court held that the Federal Circuit's decision in *Mallinckrodt* had been overruled by this Court's ruling in *Quanta*. *Id.* at 153a-154a. Holding otherwise, the court stated, would "create significant uncertainty for downstream purchasers and end users who may continue to liable for infringement even after an authorized sale to the consumer has occurred." *Id.* at 154a. The court concluded "that the fully authorized sales of the Return Program cartridges to consumers for use in the ordinary pursuits in life took the cartridges outside the

scope of the patent monopoly despite the notices contained on those cartridges." *Ibid.*

With respect to the cartridges first sold abroad, the district court denied Impression's motion to dismiss. App., *infra*, 169a. The court considered whether this Court's decision in *Kirtsaeng* relieved it of its obligation to otherwise follow the Federal Circuit's decision in *Jazz Photo*. It concluded that this Court "did not intend to implicitly overrule *Jazz Photo* and that *Jazz Photo* remains controlling precedent on patent exhaustion abroad." *Ibid.*

The parties subsequently entered a stipulated final judgment. The district court entered judgment in favor of Impression as to the Return Program cartridges and in favor of Lexmark as to the cartridges initially sold abroad. App., *infra*, at 17a-18a. Both parties subsequently appealed. *Id.* at 18a.

2. After the parties briefed the case and argued it before a panel, the Federal Circuit *sua sponte* issued an order directing that the matter would be decided, in the first instance, by the *en banc* court. App., *infra*, 18a-19a. The court identified as the controlling questions whether it should overrule either *Jazz Photo* or *Mallinckrodt*. *Id.* at 19a.[1]

With respect to the conditional sale doctrine, the majority reaffirmed *Mallinckrodt*. App., *infra*, 26a-62a. It held that *Quanta* did not overrule *Mallinckrodt* (*id.* at 30a-37a), and that *Mallinckrodt* is compatible with this Court's precedents addressing the exhaustion doctrine. *Id.* at 35a-62a. The majority

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[1] Lexmark itself recognized that these two issues are the sole questions presented by this dispute. See, *e.g.*, Fed. Cir. Dkt. No. 28, at 1-2.

concluded that a patentee may enforce, under the patent law, a restriction placed on the good at the time of sale: "A sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the 'authority' to engage in the use or resale that the restriction precludes." *Id.* at 26a.

With respect to international exhaustion, the majority reaffirmed *Jazz Photo*'s holding that patent exhaustion "cannot rest on a foreign first sale." App., *infra*, 67a. It concluded that *Kirtsaeng* was limited to the "statutory question" whether the Copyright Act's first sale doctrine (codified at 17 U.S.C. § 109(a)) applies abroad and that the decision's reasoning therefore "cannot be transposed to the patent-law setting." *Id.* at 73a. The majority concluded, in accord with *Jazz Photo*, that sale outside the United States of a patented item does not exhaust U.S. patent rights. It relied on this Court's decision in *Boesch* v. *Graff*, 133 U.S. 697 (1890), which it read to "preclud[e] foreign control of U.S. [patent] rights." App., *infra*, 84a.

3. Judge Dyk, joined by Judge Hughes, dissented. App., *infra*, 105a-135a. With respect to the conditional sale issue, the dissent stated that "*Mallinckrodt* was wrong when decided," because this Court has "repeatedly held that the authorized sale of a patented article exhaust[s] all of the patentee's patent rights in that article." *Id.* at 105a, 109a. The dissent catalogued in detail the decisions of this Court conflicting with *Mallinckrodt*. *Id.* at 107a-109a. And, "in any event," the dissent added, *Mallinckrodt* "cannot be reconciled with the Supreme Court's recent decision in *Quanta* * * *." *Id.* at 105a. In the dissent's view, the court of appeals "exceed[ed] [its] role as a subordinate court by declining to follow the explicit

domestic exhaustion rule announced by the Supreme Court." *Id.* at 105a-106a. See also *id.* at 118a ("The majority's justifications for refusing to follow Supreme Court authority establishing the exhaustion rule misconceive our role as a subordinate court.").

Turning to the international exhaustion issue, the dissenters concluded that *Jazz Photo* should be overruled in part. App., *infra*, 125a-135a. They determined that a foreign sale authorized by the U.S. patentee would not, "in all circumstances," exhaust U.S. patent rights, but would have adopted the position advanced by the United States—holding "that the foreign sale should result in exhaustion if the authorized seller does not explicitly reserve its United States patent rights." *Id.* at 125a.

REASONS FOR GRANTING THE PETITION

This case presents two questions whose resolution has extraordinarily important consequences for the scope of the patent monopoly and, in particular, the existence—or non-existence—of competition in every market for resale of every patented good whose title has been transferred in a sale by the patentee or in an authorized sale by a licensee. Review by this Court is plainly warranted.

I. This Court Should Resolve The Conditional Sale Question.

Beginning with its decision in *Mallinckrodt*, 976 F.2d 700, and culminating in the ruling below, the Federal Circuit has repeatedly held that a patentee may avoid patent exhaustion by transferring title to the patented item with a "clearly communicated, otherwise-lawful restriction as to post-sale use or resale." App., *infra*, 26a. Such a restriction, the court of

appeals holds, may be enforced as a matter of *patent* law. *Ibid.*

The decision below squarely conflicts with this Court's precedent. The United States has twice called on this Court to reverse *Mallinckrodt*, and it reiterated that position below. This issue, which has enormous practical implications, warrants definitive resolution by this Court.

A. The Federal Circuit's holding—that a patentee may avoid exhaustion by imposing post-sale restrictions when transferring title to the patented article—is plainly wrong.

The *en banc* majority's reaffirmation of *Mallinckrodt* is wholly inconsistent with this Court's precedent. *First*, this Court has long recognized that the first sale of a patented article terminates *all* patent rights possessed by the seller; there is no room in the exhaustion doctrine for continuing post-sale restrictions. *Second*, to the extent that this Court's early cases could be viewed as unclear, this Court's holdings in *Univis* and *Quanta*—both of which the court of appeals improperly characterized as mere *dicta*—together preclude a conditional sale exception to patent exhaustion. *Third*, the major rationale relied on by the court of appeals—that, because a patentee may issue a restrictive license, it should also be able to make a restrictive sale—does not withstand scrutiny: it eviscerates the settled distinction in patent law between transfers of title and licenses.

1. Patent exhaustion is a common-law rule that has not been codified by Congress. *Quanta*, 553 U.S. at 621 ("For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent

rights that survive the initial authorized sale of a patented item."). See also App., *infra*, 23a n.5. That doctrine—save for the aberration of *Henry* v. *A.B. Dick*, 224 U.S. 1 (1912), that was quickly overruled—has never permitted a patentee to enforce a putative post-sale restriction on an article *by means of the patent laws*.[2]

That has been true at least since 1853, when this Court held in *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539 (1852), that the sale of a patented article exhausts the patentee's patent rights. The Court explained that when a patented article "passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. If the patentee's rights in that ar-

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[2] When a patentee sells a product, it may choose to place *contract*-based restrictions on that article. See, *e.g.*, *Quanta*, 553 U.S. at 637 n.7; *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) ("Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws"). But Lexmark does not attempt to assert its claims as a matter of contract law. Because a remanufacturer like Impression is not in privity with either Lexmark or Lexmark's customers, Lexmark would have no contract claim against Impression. And Lexmark has apparently chosen not to sue its own customers for reselling spent toner cartridges in violation of the putative restriction.

Likewise, a patentee may choose not to sell articles embodying its patented innovations at all; instead, a party may choose to rent or lease those articles, without a transfer of title. But Lexmark has maintained that, notwithstanding its putative post-sale restrictions, it sells—not leases—the printer cartridges to its customers. See App., *infra*, 11a n.1.

ticle are infringed, "he must seek redress in the courts of the State, according to the [contract] laws of the State, and not * * * under the law of Congress granting the patent." *Id.* at 549-50.

This Court repeatedly affirmed that rule over the following century:

- "By a valid sale and purchase the patented machine becomes the private individual property of the purchaser, and is no longer specially protected by the laws of the United States." *Bloomer* v. *Millinger*, 68 U.S. (1 Wall.) 340, 351 (1863).
- "[T]he sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time. * * * [I]t is open to the use of the purchaser *without further restriction on account of the monopoly of the patentees.*" *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 455-56 (1873) (emphasis added).
- "[W]hen the patentee * * * sells a machine or instrument whose sole value is in its use, he receives the consideration for its use, and *parts with the right to restrict that use.*" *Hobbie* v. *Jennison*, 149 U.S. 355, 361-62 (1893) (emphasis added).
- "[O]ne who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no

longer applied." *Bos. Store of Chi.* v. *Am. Graphophone Co.*, 246 U.S. 8, 25 (1918).

- "[W]here a patentee makes the patented article, and sells it, *he can exercise no future control over what the purchaser may wish to do with the article after his purchase.*" *United States* v. *Gen. Elec. Co.*, 272 U.S. 476, 489 (1926) (emphasis added).

As the dissent below explained, "[t]he question of whether the seller has 'authorized' the buyer to use or resell the item is simply irrelevant" in all of these cases. App., *infra*, 106a. The Court has thus "repeatedly held that the authorized sale of a patented article exhausted all of the patentee's patent rights in that article, and freed the article from any restrictions on use or sale based on the patent laws." *Id.* at 109a.

To be sure, there was one short-lived deviation from this otherwise uniform precedent. In *Henry* v. *A.B. Dick Co.*, 224 U.S. 1, 24-25 (1912), the Court permitted enforcement through the patent laws of a post-sale restrictive condition:

> [I]f the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded.

But the Court quickly overruled *A.B. Dick*. In *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917), the Court held that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put

upon it." Thus, the Court explicitly stated that *A.B. Dick* "must be regarded as overruled." *Id.* at 518. See also *Quanta*, 553 U.S. at 626 ("the Court explicitly overruled *A.B. Dick*"). This history is, as the dissent below put it, "compelling authority against the majority's conclusion." App., *infra*, 111a.

2. This Court's more recent decisions in *Univis* and *Quanta* confirm conclusively that a patentee may not enforce a putative post-sale restriction by means of the patent laws.

In *Univis*, the patentee (Univis) licensed to the Lens Company the right to manufacture lens blanks and sell them to other designated licensees. 316 U.S. at 243. Univis issued three different classes of licenses for different categories of purchasers, granting them different use rights in the lens blanks, and setting different prices to be charged for the resale of the lenses ultimately produced. *Id.* at 244-245.

The government brought antitrust claims against Univis and the Lens Company; the companies defended by arguing that their sale of the lens blanks was "excluded" from the ambit of the Sherman Act by their "patent monopoly." *Id.* at 243. This Court rejected that argument, holding that the "sale of [an article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *Id.* at 250. It is difficult to imagine a more explicit rejection of a "conditional sale" exception to patent exhaustion.

The court below claimed that *Univis* addresses only restrictions that violate the antitrust laws, asserting the case involved a "vertical price-control restriction." App., *infra*, 54a. But Univis had imposed a

variety of non-price restrictions on the resale of its products. For example, Univis sold lens blanks to "prescription retailer[s]" and stated that the retailer could "sell finished lenses only to consumers." *Univis*, 316 U.S. at 245. In addressing the enforceability under the patent laws of post-sale restrictive conditions, *Univis* therefore was *not* limited to price restrictions.

Indeed, this Court in *Quanta* confirmed that *Univis* "governs" patent exhaustion as a general matter and its reliance on *Univis* to define the general reach of exhaustion is inconsistent with the contention that *Univis*'s rationale is limited to a subset of cases in which a putative restriction would otherwise violate the antitrust laws. *Quanta*, 553 U.S. at 631.

The Federal Circuit majority also characterized as dicta *Univis*'s conclusion that the exhaustion doctrine precludes enforcement under patent law of post-sale conditions—asserting that only "some language in *Univis*" "taken out of context and read as going beyond the restriction involved" weighed against its result. App., *infra*, 54a. The dissent properly criticized the majority for "characteriz[ing] the statement of the exhaustion rule in the Supreme Court cases as mere dictum" given that "the cases impose no such qualification on the rule announced." *Id.* at 118a.

Finally, this Court's decision in *Quanta* does not simply confirm the reach of *Univis*; that ruling independently compels rejection of the lower court's holding that a patentee may use a putative post-sale restriction to circumvent patent exhaustion. The *Quanta* Court expansively defined the scope of the exhaustion doctrine: "[t]he authorized sale of an article that

substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." 553 U.S. at 638. And the Court described *Motion Picture Patents* as having "reiterated the rule that 'the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.'" *Quanta*, 553 U.S. at 626 (quoting *Motion Picture Patents*, 243 U.S. at 516).

As the dissent below recognized, *Quanta* "reiterated the broad patent exhaustion rule and left no room for a resurrection of *A.B. Dick*['s]" conditional sale doctrine. See App., *infra*, 113a-115a.

3. The majority below rested its holding in large part on this Court's cases holding that a patentee may place restrictions on the scope of a *license* to manufacture articles embodying its patents—and that a sale by the licensee in violation of those restrictions does not exhaust the patent rights. See, *e.g.*, App., *infra*, 28a, 31a, 34a, 41a-55a. Contrary to the majority's analysis, a restriction in a license stands on vastly different ground than a putative post-sale restriction.

The patent exhaustion doctrine itself explains why a license is different than a sale. Under the first *sale* doctrine, "'the *initial authorized sale* of a patented item terminates all patent rights to that item.'" *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1765 (2013) (quoting *Quanta*, 553 U.S. at 625) (emphasis added). The required authorization, of course, is authorization *by the patentee*. When a patentee manufactures its own products, its sale of those articles will, in all cases, qualify as an "initial authorized

sale." If a patentee does not wish to "authorize" the sale, it can simply decline to sell the articles.

In the context of a patentee-licensee arrangement, the patentee authorizes the licensee to manufacture and sell articles that embody the patented technology. The "initial authorized sale" occurs when the licensee first sells the article in question. For that sale to qualify as an "authorized" one, the licensee must comply with the terms of the license.

The Court's decisions in *General Talking Pictures Corp.* v. *Western Electric Company*, 304 U.S. 175 (1938), *opinion on rehearing* 305 U.S. 124 (1939), are instructive. There, a patentee granted one company a license to produce patented amplifiers for commercial use, and it granted the defendant a license to manufacture amplifiers for home use. The defendant nonetheless made and sold amplifiers for commercial use. *General Talking Pictures*, 305 U.S. at 125-126. The Court found that the restriction in the license was valid, and that the amplifiers sold by the defendant for commercial use were therefore infringing products subject to the patent laws. *Id.* at 127.

This result accords with common sense: if the sale is in compliance with the license terms, then an "initial *authorized* sale" occurs, and all patent rights to that article held by the patentee are exhausted. But, if the sale is not in compliance, then no "initial *authorized* sale" occurs.

That principle has important real-world consequences. It means that a downstream purchaser need ascertain only that the patentee made the initial sale of the article or that the licensed manufacturer making the initial sale had full authority to sell to the initial purchaser. If one of those circumstances

is present, the downstream purchaser need not attempt to discern any other conditions that the patentee attempted to impose. Under the majority's approach, "[p]ost-sale restraints would 'cast a cloud of uncertainty over every sale.'" App., *infra*, 117a (dissent).

At bottom, the decision by the court of appeals hinges on the assertion that a patentee can authorize a sale (either via selling the article himself, or by licensing another to sell the good), but nonetheless restrict the buyer from later reselling the duly purchased article. App., *infra*, 40a-41a. That reasoning would render the patent exhaustion doctrine meaningless, because the patentee could avoid the doctrine entirely by specifying a restriction in connection with the first sale. Instead, as this Court has long held, the first authorized sale necessarily exhausts all patent rights, including any post-sale restriction the patentee may wish to impose.

B. The court of appeals rejected the longstanding view of the United States that *Mallinckrodt* is inconsistent with this Court's precedents.

For nearly a decade, the United States has recognized that *Mallinckrodt* "reflects a fundamental misunderstanding of the role and scope of the patent-exhaustion doctrine." U.S. Br. at 23, *Quanta*, 553 U.S. 617 (No. 06-937), 2007 WL 3353102. The government's brief in *Quanta* stated that the Federal Circuit's conditional sale doctrine "cannot be reconciled" with this Court's decision concerning the first-sale doctrine. *Ibid.*

Later, in its *Bowman* certiorari-stage *amicus* brief, the United States explained that *Mallinckrodt*

"was materially different from, and inconsistent with" this Court's exhaustion holdings. U.S. Cert. Br. 8, *Bowman*, 133 S. Ct. 1761 (No. 11-796), 2012 WL 3643767. Following the grant of certiorari, the United States underscored that "the Federal Circuit's 'conditional sale' doctrine is erroneous and inconsistent with *Quanta*." U.S. Br. at 29, *Bowman*, 133 S. Ct. 1761 (No. 11-796), 2013 WL 137188. *Mallinckrodt*, the United States said, "is irreconcilable with this Court's precedents," which have "repeatedly applied the patent-exhaustion doctrine in concluding that explicit restrictions imposed on authorized purchasers were ineffective as a matter of patent law." *Id.* at 30-31.

Finally, the United States appeared as *amicus* before the court below and reaffirmed its longstanding position, urging the *en banc* court to "overrule *Mallinckrodt* and hold that post-sale restrictions are not enforceable in patent law." U.S. Br. at 4, *Lexmark Int'l, Inc.* v. *Impression Prods., Inc.*, 2016 WL 559042 (Fed. Cir. 2015) (No. 14-1617), 2015 WL 4112927.

The United States stated that "*Mallinckrodt* was wrong when it was decided, and the gap between *Mallinckrodt* and the Supreme Court's precedents has only become more evident in the ensuing years." *Id.* at 8. It urged the court of appeals to "overrule *Mallinckrodt* and hold that the first authorized sale in the United States exhausts all patent rights in the article sold, regardless of the patentee's attempt to impose post-sale restrictions by contract." *Id.* at 12. For this reason, the government contended, "Lexmark's single-use restrictions on its cartridge sales cannot be enforced through patent law." *Ibid.*

The government's *amicus* brief in *Quanta* explained the significant adverse practical consequences of the *Mallinckrodt* rule:

> Absent patent exhaustion, the lawful purchase of an article useful only for practicing the patent provides no value to the purchaser until completion of further negotiations and a further payment for the right to use or to resell. Moreover, the need for further negotiations and payments may depend on a court's after-the-fact determination whether the seller adequately expressed a limitation on the rights conveyed. * * * The potential for "inconvenience and annoyance," as well as inefficiency, is palpable.
>
> That potential is not limited to the first purchaser. If the patentee can impose use and resale restrictions on the first purchaser in an authorized sale, there is no reason why it cannot also do so as to all subsequent purchasers. * * * The inconvenience, annoyance, and inefficiency can thus be passed down the chain of distribution, with no obvious stopping point short of the end of the article's useful life.
>
> That ability to employ the patent law to extract royalties at multiple downstream points in the channels of commerce, even after an authorized sale, can have consequences beyond the evident transactional inefficiencies. * * * The result would be a transfer of wealth from downstream firms and ultimate consumers to the patentee. Nothing suggests that this transfer would further "the Progress of Science and useful Arts," U.S.

> Const. Art. I, § 8, Cl. 8, to the benefit of the public.

Br. at 27-28. These consequences, and the stark inconsistency between *Mallinckrodt* and this Court's decisions, confirms the need for this Court's intervention.

C. The question is extremely important.

This Court has frequently observed that "[t]he promotion of the progress of science and the useful arts is the 'main object'" of patent law; the "reward of inventors is secondary and merely a means to that end." *E.g.*, *United States* v. *Masonite Corp.*, 316 U.S. 265, 278 (1942). Patent law must therefore strike a balance between the public interest, on the one hand, and providing proper incentives to inventors on the other.

A key mechanism for establishing this balance is the "single-reward principle": that "the payment of a royalty once, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, emancipates such article from any further subjection to the patent." *Keeler* v. *Standard Folding-Bed Co.*, 157 U.S. 659, 666 (1895). Once an article has been sold, the patentee has received its patent-law "reward" for that article and any subsequent conditions on the article's resale or use can only be enforced through contract law. *E.g.*, *Quanta*, 553 U.S. at 637 n.7 ("[T]he authorized nature of the sale to [a purchaser] does not necessarily limit [the patentee's] other contract rights.").

Allowing patentees to enforce sale and use restrictions through patent law, in addition to contract law, would dramatically expand patentees' ability to impose such restrictions. Patent rights, unlike con-

tract rights, can be asserted against downstream purchasers not in privity with the patentee or its authorized licensee. And patent law provides for enhanced damages (see 35 U.S.C. § 284) and injunctive relief (*id.* § 283) that generally are unavailable under contract law. The severity and far-reaching scope of the patent infringement remedy would allow patentees to exert considerable control over the secondary market for their products and the uses to which those products are put.

The anticompetitive implications of the holding below are therefore dramatic: it permits *any* patentee to foreclose the secondary market for *any* patented good. The inevitable consequence would be to enable patentees to extract unjustified rents from downstream users.

That would distort the function of patent law, expanding its restrictions far beyond those in the patent law to encompass any restriction devised by the patentee. But "[s]ince patents are privileges restrictive of a free economy, the rights which Congress has attached to them must be strictly construed so as not to derogate from the general law beyond the necessary requirements of the patent statute." *Masonite Corp.*, 316 U.S. at 280.

Our intellectual property laws were never intended to authorize that result. Indeed, since at least the seventeenth century, the common law has strongly disfavored restraints on the alienation of chattels because they interfere with the functioning of secondary markets. See 1 Edward Coke, *Institutes of the Laws of England* § 360, at 223 (5th ed. 1656). *Kirtsaeng* expressly recognized this principle in the context of intellectual property, explaining that it is "importan[t] [to] leav[e] buyers of goods free to com-

pete with each other when reselling or otherwise disposing of those goods" because "competition, including freedom to resell, can work to the advantage of the consumer." *Kirtsaeng*, 133 S. Ct. at 1363 (citing *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 886 (2007)).

By enabling a patentee to eliminate competition in the secondary market, *Mallinckrodt*'s "conditional sale" doctrine reduces consumer welfare and causes an unjustified "wealth transfer from customers to the patentee." Richard H. Stern, *Post-Sale Patent Restrictions After* Mallinckrodt*—An Idea in Search of Definition*, 5 Alb. L.J. Sci. & Tech. 1, 11 (1994).

This Court should intervene to abrogate this harmful rule. As the United States has put it, "no one benefits from the uncertainty caused by dissonance between Supreme Court patent precedents and more recent holdings of the Federal Circuit." U.S. Br. at 18-19, *Quanta*, 553 U.S. 617 (No. 06-937), 2007 WL 2425785. The Court should "provide much needed guidance" (*id.* at 19)—and this is the ideal case in which to do so.

II. This Court Should Review The International Exhaustion Question.

The question whether a sale outside the United States, authorized by the U.S. patentee, exhausts U.S. patent rights also warrants review. The Federal Circuit's holding below—that a U.S. patentee's sales abroad do not exhaust its U.S. patent rights—cannot be reconciled with this Court's decisions in *Kirtsaeng* and *Quanta*.

A. The Federal Circuit's holding is contrary to this Court's precedents.

The ruling below is wrong for three reasons: it is foreclosed by *Kirtsaeng*, it is inconsistent with over a century of common-law rulings, and it departs from the clear implications of *Quanta*.

1. This Court's recent decision in *Kirtsaeng* holding that sales outside the U.S. exhaust copyright rights resolves this question.

In the patent context, Congress has not enacted a statute addressing the scope of exhaustion. See App., *infra*, 23a n.5 ("Congress has not defined the underlying patent-exhaustion rule."). In the absence of action by Congress, the issue turns on the common law rule, and *Kirtsaeng* decisively answered that question.

The copyright law addressed in *Kirtsaeng* contained a statutory provision addressing exhaustion. The Court held that one "relevant canon of statutory interpretation" was that "[w]hen a statute covers an issue previously governed by the common law," there is a presumption that "Congress intended to retain the substance of the common law." *Id.* at 1363.

The Court therefore proceeded to identify the relevant common law rule. In undertaking this review, the Court remarked that "[t]he 'first sale' doctrine is a common-law doctrine with an impeccable historic pedigree." *Ibid.* The Court relied on Lord Coke's explanation of "the common law's refusal to permit restraints on the alienation of chattels" (*ibid.*):

> "[If] a man be possessed of ... a horse, or of any other chattell ... and give or sell his

> whole interest ... therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest ... is out of him, so as he hath no possibilit[y] of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man: and it is within the reason of our Author that it should ouster him of all power given to him." 1 E. Coke, Institutes of the Laws of England § 360, p. 223 (1628).

Ibid. It concluded that "Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods." *Ibid.* Likewise, "American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer." *Ibid.*

The Court concluded that the common law doctrine had no territorial restrictions: "[t]he common-law doctrine makes no geographical distinctions." *Ibid.*

Importantly, the Court conducted its analysis of the common law with respect to property ***generally***. *Ibid.* Its conclusion was not limited to copyright law. Only *after* indentifying the common law principle applicable to *all* property rights did the Court then apply that principle to the copyright context—to determine whether the relevant statutory provision (Section 109(a) of the Copyright Act) limited the application of the common law rule. *Kirtsaeng*, 133 S. Ct. at 1363-1364.

There can be no doubt that the *Kirtsaeng* Court's common law determination applies equally to patent

law. Indeed, the Court has previously relied on Lord Coke's analysis of the common law prohibition of restraints on alienation to guide the contours of patent exhaustion. See *Straus* v. *Victor Talking Machine Co.*, 243 U.S. 490, 500-01 (1917) (noting that a patentee's attempt "to place restraints upon [a patented product's] further alienation * * * have been hateful to the law from Lord Coke's day to ours").

And the exhaustion question in the patent context is more straightforward than it was with respect to copyright: there is *no* statutory language to interpret. The sole question, therefore, is what the common law requires—because "[w]hen a statute covers an issue previously governed by the common law," there is a presumption that "Congress intended to retain the substance of the common law." *Kirtsaeng*, 133 S. Ct. at 1363. *Kirtsaeng*'s common law analysis is therefore determinative.

The majority below distinguished *Kirtsaeng* as a decision interpreting Section 109(a) of the Copyright Act, a provision that "has no counterpart in the Patent Act." App., *infra*, 70a. In the majority's view, Section 109(a)'s text authorizes a first-sale doctrine in the copyright context that is broader than the rule applicable in the patent context. App., *infra*, 70a.

But that reading of *Kirtsaeng* is exactly backwards. The Court there held that Section 109(a) *constrained* the first-sale doctrine that existed at common law, because it requires not only an authorized sale of a copy of a work but also that that copy have been "lawfully made under this title"—a phrase the Court was required to interpret in *Kirtsaeng*. 17 U.S.C. § 109(a). The Patent Act places no such restriction on the common law's first-sale doctrine. The Court's common law analysis therefore controls,

making the doctrine at least as expansive in the patent context as it is in copyright law—not *less* expansive, as the majority suggested below.[3]

2. This understanding of the common law is reflected, moreover, in a consistent line of patent cases indicating that a sale outside the United States authorized by the U.S. patentee has long been understood to exhaust U.S. patent rights.

The best-known articulation of this rule was in *Holiday* v. *Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885), which addressed "the question whether the owner of a patent in the United States for an invention, who has sold the patented article in England without restriction or conditions, can treat as an infringer one who has purchased the article in England of a vendee of the patentee, and can restrain him from using or selling the article here." The court held that the patentee did not retain any patent rights in the article after its foreign sale; rather, the purchaser "acquire[d] the right of unrestricted ownership in the article * * *, including, as an inseparable inci-

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[3] *Kirtsaeng* also makes inapposite the court of appeal's focus on the territorial nature of patent rights. See App., *infra*, 84a-86a. To be sure, a U.S. patentee may not assert that a foreign party infringed a U.S. patent abroad; the patentee must instead obtain a patent in each country in which it will seek to enforce patent rights. But that is also true of copyright law. Indeed, the *Kirtsaeng* dissent pointed out that "[t]he Copyright Act, it has been observed time and again, does not apply extraterritorially." *Kirtsaeng*, 133 S. Ct. at 1376 (Ginsburg, J., dissenting). But the majority held that U.S. copyrights in copies of works sold outside the United States are exhausted by a sale outside the U.S. that is authorized by the U.S. copyright holder. There is no basis for a different result with respect to U.S. patent rights. As the dissent below put it, "the doctrine of extraterritoriality" is "inapposite." App., *infra*, 126a.

dent, the right to use and enjoy it, and to transfer his title to others." 24 F. at 186.[4] *Holiday*'s rule was broadly adopted.[5]

The majority below tried to distinguish *Holiday* on the ground that "its emphasis on the absence or presence of patentee-conveyed restrictions on post-purchase use[] is taken entirely from domestic exhaustion law." App., *infra*, 90a. But that is precisely the point. The same exhaustion rule governing authorized domestic sales *also* applies to authorized sales abroad.

The court below also held (App., *infra*, 90a-91a) that *Holiday* was superseded by this Court's later decision in *Boesch* v. *Graff*, 133 U.S. 697 (1890). Indeed, the court below (App., *infra*, 80a-83a), like the *Jazz Photo* court, 264 F.3d at 1105, relied on *Boesch* in concluding a foreign sale does not exhaust a U.S.

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[4] *Holiday* derived, in substantial part, from English common law. See 24 F. at 186. In *Betts* v. *Willmott*, [1871] 6 L.R. 239, 245 (Ch. App.) (Eng.), the Court of Appeal in Chancery held that a holder of both a French and English patent, who manufactured and sold an item in France, granted the purchaser of the good in France an implicit license to use and sell the item in England; "inasmuch as [the patentee] has the right of vending the goods in *France* or *Belgium* or *England*, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them wherever the purchaser pleases."

[5] See, *e.g.*, *Kabushiki Kaisha Hattori Seiko* v. *Refac Tech. Dev. Corp.*, 690 F. Supp. 1339, 1342 (S.D.N.Y. 1988); *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 939 (D.N.J. 1983); *Becton, Dickinson & Co.* v. *Eisele & Co.*, 86 F.2d 267, 268-70 (6th Cir. 1936); *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71, 78 (2d Cir. 1920); *Dickerson* v. *Tinling*, 84 F. 192, 194-95 (8th Cir. 1897); *Dickerson* v. *Matheson*, 57 F. 524, 527 (2d Cir. 1893).

patentee's rights. But *Boesch* held nothing of the sort.

The plaintiffs in *Boesch*, who held the U.S. patent rights to a lamp burner, brought an infringement action against the importers into the United States of lamp burners practicing that patent. *Boesch*, 133 U.S. at 698-99. The defendants had purchased the burners from a third party in Germany who was permitted to make and sell them under German law because he had been doing so prior to the German patent application for the same technology. *Id.* at 701-02.

Thus, as this Court explained, the "exact question presented [was] whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, *without the license or consent of the owners of the United States patent*." *Id.* at 702 (emphasis added). The Court concluded that because the third party had not received this "license or consent" from the patentee, "purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights [of] patentees under [the] United States patent." *Id.* at 703.

Boesch thus addresses the circumstance in which a patented article is sold abroad *without authorization by the U.S. patentee*. It did not address situations, such as this case, in which a foreign sale is authorized by the U.S. patentee. See, *e.g.*, App., *infra*, 126a (dissent) ("*Boesch* does not apply here because the foreign sales were made by Lexmark—the U.S. patent rights holder—itself."); *Curtiss Aeroplane*, 266 F. at 77 (explaining that *Boesch* is limited to circumstances in which "there has been no participation

whatever by the owner of the patent, either as a party or as a privy, in the putting out of the article which is alleged to infringe").

When the foreign sale is authorized by the U.S. patentee, the common-law rule announced in *Holiday*, rather than *Boesch*, controls, and the patentee's U.S. patent rights are exhausted. See 5 Donald S. Chisum, *Chisum on Patents* § 16.05[3][a][ii] (1997) (noting that *Boesch* "left open" the question whether "an importer infringe[s] by domestic sale when he bought the product in a foreign country from the person who owns the United States patent," and that *Holiday* answers that question).

3. Finally, the court of appeals conclusion that patent exhaustion occurs only if a patentee receives an award for a sale in the United States (App., *infra*, 75a-81a) is plainly inconsistent with *Quanta*.

To begin with, nothing in the text of 35 U.S.C. § 271(a) supports the lower court's conclusion. That statute addresses the circumstances in which a patentee may sue for infringement, and generally requires that the infringement occurred "within the United States." *Ibid.* That says nothing about the reach of the exhaustion doctrine. Cf. App., *infra*, 75a-76a.

Quanta, however, does address that question. In that case, LGE, the owner of certain method patents, licensed them to Intel, which produced microprocessors and chips that practiced the patents when incorporated into a computer system. 553 U.S. at 623. Intel sold the articles to Quanta, which integrated them into its computers. *Id.* at 624. When LGE sued Quanta for patent infringement, Quanta asserted exhaustion as a defense, and this Court was asked to

address (among other issues) whether Intel's sale of its products substantially embodied the method patents and therefore exhausted LGE's patent rights. *Id.* at 621.

On that issue, this Court held that patent exhaustion depends on whether "the product is 'capable of use only in *practicing* the patent,' not whether those uses are infringing." *Id.* at 632 n.6 (quoting *Univis*, 316 U.S. at 249). And—addressing the point that some of the products were sold outside the United States—the Court explained that even if sold "*outside the country* * * *, the Intel Products would still be *practicing* the patent, even if not infringing it." *Ibid.* (first emphasis added). That reasoning demonstrates that foreign sales of patented articles can exhaust U.S. patent rights, because it shows that an article can *practice* a U.S. patent outside the United States—which is the critical question for exhaustion purposes.[6]

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[6] The court of appeals does not confront this essential point. It recognizes that this language means that a good sold abroad can "embody" a U.S. patented innovation. App., *infra*, 66a n.14. But, as *Quanta* and *Univis* hold, the embodiment of the invention in an item subjected to an authorized sale triggers exhaustion. The first sale need not *infringe* a patent right. Geography is therefore irrelevant.

The court of appeals also pointed to various trade agreements in support of its rule. See App., *infra*, 86a-88a. But some of the agreements, TRIPS and the TPP, say nothing at all about exhaustion. *Id.* at 86a-87a. The three country-specific agreements (*id.* at 87a-88a) *undermine* the court of appeals decision, because they demonstrate that Congress thought it necessary to modify the law in order to avoid international exhaustion.

B. The decision below rejected the argument advanced by the United States.

The United States asserted that "by default, foreign sales authorized by the U.S. patentee exhaust domestic patent rights, but a U.S. patentee may expressly reserve his U.S. patent rights in such sales." See U.S. Br., *Lexmark*, *supra*, at 26. The dissenters below would have adopted that rule. App., *infra*, 125a-135a.

To be sure, we disagree with the position advanced by the United States—for two reasons. First, it is inconsistent with the *Kirtsaeng* Court's analysis of the governing common law rule. Second, it is inconsistent with the basic principle that a patentee cannot impose *any* patent-based post-sale restriction following an "initial authorized sale" (see pages 10-18, *supra*). Restrictions that a patentee attempts to place on the sale of goods may be enforceable in contract, but they are not enforceable through patent law. Indeed, the United States does not attempt to reconcile its position with respect to this question with its view that the patent exhaustion doctrine "leaves no room for post-sale restrictions enforceable in infringement actions." U.S. Br., *Lexmark*, *supra*, at 5.

But the majority's rejection of the United States' approach is further evidence of the importance of the issue, and the need for this Court's intervention.

C. The question is important.

Jazz Photo's domestic-only exhaustion rule creates substantial market inefficiencies, frustrates innovation, and creates a distinction between copyright and patent law that will produce substantial practical problems.

The modern supply chain for consumer goods is astonishingly complex: many finished consumer products incorporate numerous separate patented components, which are manufactured in a number of different countries. A recent report identified 785 different suppliers, in 31 countries, for various components of the iPhone 6. Ian Barker, *The Global Supply Chain Behind the iPhone 6*, https://perma.cc/NT2H-VV2Q. Even "a given semiconductor product * * * will often embody hundreds if not thousands of 'potentially patentable' technologies," and that is just one part of a consumer device. Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study of Patenting in the U.S. Semiconductor Industry, 1979-1995*, 32 Rand J. Econ., No. 1, 101, 110 (2001).

A domestic-only exhaustion rule adds substantial complexity to this system: it requires a manufacturer who wishes to import an intermediate or finished product into the United States to trace the patent rights of *every* component in its product and license each component for importation—over and above purchasing the components themselves.

It also allows a patentee to wait until its components have been incorporated into end products that have been imported into the United States before demanding royalties. At that point in time, the patentee has leverage to extract value beyond what the market would bear if the patentee had to price its full patent rights into its initial sale of the component. The inefficiencies and rent-seeking that result from the *Jazz Photo* rule are harmful to consumers and to the global economy.

The *Jazz Photo* rule also makes it harder for innovators to develop new technologies. New products

often are created by combining existing components in new ways—but a developer cannot experiment with components if there is no meaningful way to understand whether the patent rights in the components have been exhausted. Thus, as a recent study explained, "deregulation of parallel imports"—*i.e.*, loosening patent-based restrictions on secondary-market goods—"generates both an increase in consumer surplus in the innovative country and an *increase* in the world pace of innovation." Gene M. Grossman & Edwin L.C. Lai, *Parallel Imports and Price Controls*, 39 Rand J. Econ. 378, 380 (2008).

Finally, *Jazz Photo* creates a glaring disparity between copyright law and patent law. Under *Kirtsaeng*, a foreign sale of a copy of a work that is authorized by the U.S. rights owner exhausts the copyright in the copy, see 133 S. Ct. at 1355-1356, but under *Jazz Photo* a foreign sale of a patented article does not exhaust the patentee's U.S. rights. As *Kirtsaeng* observed, however, copyrights are often found in products that are protected by patents as well, including "automobiles, microwaves, calculators, mobile phones, tablets, and personal computers." *Id.* at 1365. Differing exhaustion rules for differing intellectual property rights will lead to the bizarre results in which a first sale exhausts a copyright embodied in an article, but not a patent embodied in that same article. That would only increase the gamesmanship available to entities seeking to prevent secondary market competition. By granting review, therefore, this Court can address whether it is appropriate to harmonize the application of the exhaustion doctrine.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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MARCH 2016

APPENDICES

APPENDIX A

United States Court of Appeals for the Federal Circuit

LEXMARK INTERNATIONAL, INC.,
Plaintiff-Cross-Appellant
v.
IMPRESSION PRODUCTS, INC.,
Defendant-Appellant
QUALITY CARTRIDGES, INC., JOHN DOES, 1-20, BLUE TRADING LLC, EXPRINT INTENATIONAL, INC., LD PRODUCTS, INC., PRINTRONIC CORPORATION, TESEN DEVELOPMENT (HONG KONG) CO. LTD., BENIGNO ADEVA AND HIS COMPANIES,
Defendants

2014-1617, 2014-1619

Appeals from the United States District Court for the Southern District of Ohio in No. 1:10-cv-00564-MRB, Judge Michael R. Barrett.

Decided: February 12, 2016

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Before PROST, *Chief Judge*, NEWMAN, LOURIE, DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO, CHEN, HUGHES, and STOLL, *Circuit Judges*.

Opinion for the court filed by *Circuit Judge* TARANTO, in which *Chief Judge* PROST and *Circuit Judges* NEWMAN, LOURIE, MOORE, O'MALLEY, REYNA, WALLACH, CHEN, and STOLL join.

Dissenting opinion filed by *Circuit Judge* DYK, in which *Circuit Judge* HUGHES joins.

TARANTO, *Circuit Judge*.

Congress has declared: "Except as otherwise provided in [the Patent Act], whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a); *see id.* § 154(a) (granting patentee "right to exclude others" from itemized actions). The doctrine of patent exhaustion (or "first sale" doctrine) addresses the circumstances in which a sale of a patented article (or an article sufficiently embodying a patent), when the sale is made or authorized by the patentee, confers on the buyer the "authority" to engage in acts involving the article, such as resale, that are infringing acts in the absence of such authority. There is nothing "otherwise provided" on the issue in the Patent Act. In that respect, the Patent Act differs from the Copyright Act, whose infringement, importation, and exclusive-rights provisions, 17 U.S.C. §§ 501, 602, 106, are all subject to a separate, overriding statutory provision that grants owners of certain copyrighted articles a right to sell those articles "without the authority" of the copyright holder, *id.* § 109(a).

In this case, all of the initial sales at issue were made by the U.S. patentee, rather than by a licensee having authorization from the patentee. Some of the initial sales were made domestically, some abroad. All of the domestic sales, and an unknown portion of the foreign sales, were accompanied by clearly communicated restrictions on the buyer's reuse and resale.

We decided to hear this case en banc to consider whether two decisions of this court concerning the uncodified doctrine of patent exhaustion—one decision from 1992, the other from 2001—remain sound in light of later decisions of the Supreme Court. Today we reaffirm the principles of our earlier decisions.

First, we adhere to the holding of *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), that a patentee, when selling a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser, does not by that sale give the buyer, or downstream buyers, the resale/reuse authority that has been expressly denied. Such resale or reuse, when contrary to the known, lawful limits on the authority conferred at the time of the original sale, remains unauthorized and therefore remains infringing conduct under the terms of § 271. Under Supreme Court precedent, a patentee may preserve its § 271 rights through such restrictions when licensing others to make and sell patented articles; *Mallinckrodt* held that there is no sound legal basis for denying the same ability to the patentee that makes and sells the articles itself. We find *Mallinckrodt*'s principle to remain sound after the Supreme Court's decision in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617 (2008), in which the Court did not have before it or address a patentee sale at all, let alone one made subject to a restriction, but a sale made by a separate manufacturer under a patentee-granted license conferring unrestricted authority to sell.

Second, we adhere to the holding of *Jazz Photo Corp.* v. *International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), that a U.S. patentee, merely by selling or authorizing the sale of a U.S.-patented article

abroad, does not authorize the buyer to import the article and sell and use it in the United States, which are infringing acts in the absence of patentee-conferred authority. *Jazz Photo*'s no-exhaustion ruling recognizes that foreign markets under foreign sovereign control are not equivalent to the U.S. markets under U.S. control in which a U.S. patentee's sale presumptively exhausts its rights in the article sold. A buyer may still rely on a foreign sale as a defense to infringement, but only by establishing an express or implied license—a defense separate from exhaustion, as *Quanta* holds—based on patentee communications or other circumstances of the sale. We conclude that *Jazz Photo*'s no-exhaustion principle remains sound after the Supreme Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), in which the Court did not address patent law or whether a foreign sale should be viewed as conferring authority to engage in otherwise-infringing domestic acts. *Kirtsaeng* is a copyright case holding that 17 U.S.C. § 109(a) entitles owners of copyrighted articles to take certain acts "without the authority" of the copyright holder. There is no counterpart to that provision in the Patent Act, under which a foreign sale is properly treated as neither conclusively nor even presumptively exhausting the U.S. patentee's rights in the United States.

BACKGROUND

The relevant facts are set forth in the limited record that the parties agreed was determinative of the result. Lexmark International, Inc. makes and sells printers as well as toner cartridges for its printers. Lexmark owns a number of patents that cover its cartridges and their use. The cartridges at issue here were first sold by Lexmark, some abroad and

some in the United States. Some of the foreign-sold cartridges and all of the domestically sold cartridges at issue were sold, at a discount, subject to an express single-use/no-resale restriction. Impression Products, Inc. later acquired the cartridges at issue in order to resell them in the United States—the restricted ones after a third party physically modified them to enable re-use in violation of the single-use/no-resale restriction. Impression has resold the patented Lexmark cartridges at issue in the United States, and has imported those it acquired abroad. In each case, it has acted without affirmative authorization from Lexmark and, for the restricted cartridges, in violation of the express denial of authorization to engage in resale and reuse. Impression's actions infringe under 35 U.S.C. § 271—unless the fact that Lexmark initially sold the cartridges constitutes the grant of authority that makes Impression's later resale and importation non-infringing under the doctrine of exhaustion. Whether Lexmark's initial sales have that effect raises two questions—one regarding the single-use/no-resale restricted sales (wherever they occur), the other regarding the initial foreign sales of all cartridges, whether restricted or not.

A

Lexmark offers buyers a choice. A buyer may purchase a "Regular Cartridge" at full price, in which case the buyer is not subject to any sale terms restricting reuse or resale of the cartridge. Alternatively, a buyer may purchase a "Return Program Cartridge" at a discount of roughly 20 percent, subject to a single-use/no-resale restriction: the buyer may not reuse the cartridge after the toner runs out and may not transfer it to anyone but Lexmark once it is used,

i.e., the buyer must "return" the cartridge "only" to Lexmark. J.A. 2559.[1] Lexmark and Impression stipulated in this case that the reduced price "reflects the value of the property interest and use rights conveyed to the purchaser under the express terms of the conditional sale contract and conditional single-use license conferred by Lexmark." *Id.* The stipulation adds that "Lexmark has an express and enforceable contractual agreement with each of its end-user customers." J.A. 2562. And it is undisputed that all end users receive adequate notice of the restriction supporting the discounted price before they make their purchases.

The distinctness of the options for buyers, which produce different revenues for Lexmark, is not just a matter of different terms of sale. It also is reflected in a microchip in the cartridges that, among other things, communicates with the printer. For a Return Program cartridge, the chip and printer, by monitoring toner levels, prevent use of a refilled cartridge. For a Regular cartridge, the toner can be replenished and the cartridge reused. J.A. 2559–60. "To circumvent this technological measure," however, "third parties have 'hacked' Lexmark's microchips and created their own 'unauthorized replacement' microchips" that, when installed in a Return Program cartridge, fool the printer into allowing reuse of that cartridge. J.A. 2560. It is undisputed that various companies gather spent cartridges, replace the microchips, refill and "remanufacture" the cartridges,

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[1] At oral argument, noting a reason the arrangement was not a lease, Lexmark stated that a Return Program Cartridge buyer is not absolutely required to return the cartridge to Lexmark. The restriction bars each of two acts: reusing the cartridge; transferring it to anyone else.

and sell them to resellers like Impression for marketing to consumers for use with Lexmark printers.

Lexmark sells its cartridges in two channels of distribution. It sells directly to end users, and it sells to "re-sellers" (including wholesalers, dealers, and distributors). Lexmark offers the options of Return Program and Regular cartridges in both channels; the resellers pay less for the Return Program cartridges; and the single-use/no-resale restriction applies to the resale by resellers. J.A. 2564. There is no dispute about the adequacy of notice to resellers as well as end users or the binding nature of the Lexmark-reseller agreements. J.A. 2562–64. When Lexmark sells its cartridges to end users, that sale is the first sale; when it sells to resellers, that sale is the first sale. When a reseller subsequently sells to end users, that sale is not the first sale.

B

Lexmark sued Impression, among other companies, for infringement under 35 U.S.C. § 271. It alleged that Impression acquires spent cartridges, including some Return Program cartridges that have been altered by chip replacement and toner refilling, then sells them in the United States and, for the foreign-bought ones, imports them into the United States.[2] For a large number of patents directly covering the cartridges, Lexmark alleged direct infringement under § 271(a). For a few patents that only the end user directly infringes, Lexmark alleged that

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[2] Lexmark has not argued to us that the chip replacement and ink replenishment result in new articles, which would be outside the scope of the exhaustion doctrine. *See Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 346 (1961) (*Aro I*).

Impression is liable for contributory infringement under § 271(c). The operative complaint states the infringement allegations in a single count (Count I), covering past and continuing activity.

More specifically, the infringement allegations are limited to two groups of cartridges. One group consists of Return Program cartridges that Lexmark sold in the United States under the restriction denying authority for resale and reuse. As it later made clear, Lexmark did not allege infringement by Impression's actions involving Regular cartridges Lexmark had first sold domestically. J.A. 1895–97, 2557. The second group consists of *all* cartridges that Lexmark sold abroad, including Return Program and Regular cartridges. It is undisputed that Lexmark never granted anyone permission to import those cartridges into, or sell or use them in, the United States.

C

The litigation progressed to the point at which no defendant remained except Impression, and only the single count of infringement remained against Impression. Impression came to agree that the patents covered the cartridges it was importing and selling, and it did not dispute the validity or enforceability of the patents. It contested liability for infringement on just one ground, namely, that Lexmark had exhausted its U.S. patent rights in the cartridges by its initial sales of them.

Three defining aspects of Impression's contention to the district court, and presentation to us, are worth noting here, because they narrow our focus. *First*, we discuss only Lexmark's sales to end users (and the resales and reuses deriving from those sales), because neither party has made an argument

for distinguishing Lexmark's sales to resellers. *Second*, we take as a premise that both the first purchaser and Impression as a re-purchaser had adequate notice of the single-use/no-resale restriction before they made their purchases; the adequacy of that notice is unchallenged. Thus, we do not have before us the questions that would arise, whether under principles governing bona fide purchasers or otherwise, if a downstream re-purchaser acquired a patented article with less than actual knowledge of such a restriction. *Third*, Impression has not contended that the particular restriction at issue gives rise to a patent-misuse defense, constitutes an antitrust violation, or exceeds the scope of the Patent Act's express grant of exclusive rights over patented articles, 35 U.S.C. §§ 154, 271. Rather, Impression contends that, although there is no other illegality or breach of statutory limits identified, the single-use/no-resale restriction is to be disregarded for exhaustion purposes. According to Impression, it has the authority to resell despite the known denial of such authority by Lexmark for the Return Program cartridges.

Impression presented its exhaustion defense by filing motions to dismiss the infringement count, one motion for each of the two groups of cartridges at issue. For each motion, Impression did not contest that, under this court's governing law, its exhaustion defense must fail: *Mallinckrodt* for the cartridges initially sold in the United States, *Jazz Photo* for the cartridges initially sold abroad. But it argued that the Supreme Court's more recent decisions had made *Mallinckrodt* and *Jazz Photo* no longer good law. In a pair of opinions issued the same day, the district court agreed with Impression about *Mallinckrodt* but disagreed about *Jazz Photo*.

1

The district court granted Impression's motion to dismiss Lexmark's claim of infringement involving the single-use cartridges Lexmark had first sold in the United States. *Lexmark Int'l, Inc.* v. *Ink Techs. Printer Supplies, LLC*, No. 1:10-CV-564, 2014 WL 1276133 (S.D. Ohio Mar. 27, 2014) (*Domestic Sale Opinion*), modified at J.A. 34–35 based on a joint stipulation of the parties, J.A. 2554–66. Like Impression, the court recognized that there is no exhaustion here under this court's decision in *Mallinckrodt*, which rejected an exhaustion defense in circumstances similar to those presented here—namely, where a patentee sold a patented article subject to an otherwise-unobjectionable single-use restriction. *Id.* at *4, *6. And the court recognized this court's post-*Mallinckrodt* decisions as reiterating that a "'conditional sale'" of that type does not cause exhaustion of the patentee's preserved rights in the article. *Id.* at *4, *6 (quoting *Princo Corp.* v. *Int'l Trade Comm'n*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) (en banc)).

In nevertheless finding exhaustion here, the district court examined a number of Supreme Court decisions on patent exhaustion. It noted the Court's explanation in *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 549–50 (1853), that a patentee's grant of a license to another to make and sell a patented article is not the same thing as the patentee's sale of the article itself. *Domestic Sale Opinion*, 2014 WL 1276133, at *3. It noted, too, the Court's rejection of an exhaustion defense in *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 175, *opinion on rehearing at* 305 U.S. 124 (1938), which held that a buyer of a patented article infringed when it used the article in a way forbidden by a known use restriction, having bought the article from a manufac-

turer licensed by the patentee to make and sell the article only to buyers who complied with the use restriction. *Domestic Sale Opinion*, 2014 WL 1276133, at *3. The district court also noted that the Supreme Court in *Quanta* found exhaustion where "the Supreme Court determined that the agreements [at issue] broadly authorized Intel [the seller] to sell the licensed products *without* restrictions or conditions." *Id.* at *5 (emphasis added).

Despite that recognition of what *Quanta* involved, the district court concluded "that *Quanta* overruled *Mallinckrodt* sub silentio." *Id.* at *5, *6. Although Return Program cartridges were sold under post-sale restrictions on reuse and resale, the district court held that "those post-sale use restrictions do not prevent patent rights from being exhausted given that the initial sales were authorized and unrestricted." *Id.* The court thus dismissed the infringement claim regarding Impression's actions involving Return Program cartridges Lexmark had sold in the United States. *Id.* at *7.

2

As to cartridges Lexmark had sold abroad, the court held that exhaustion did not apply, *i.e.*, did not render Impression's imports and domestic resales of those cartridges non-infringing. *Lexmark Int'l, Inc.* v. *Ink Techs. Printer Supplies, LLC*, 9 F. Supp. 3d 830 (S.D. Ohio 2014) (*Foreign Sale Opinion*). The court recognized, and Impression did not dispute, that "under *Jazz Photo*, an initial authorized sale of a patented product outside of the United States would not exhaust the patent rights of the patent holder." *Id.* at 833. It then examined the Supreme Court's decision in *Kirtsaeng* and rejected Impression's contention that *Kirtsaeng* "overturns the Federal Circuit's

decision in *Jazz Photo*, 264 F.3d 1094, such that Lexmark's patent rights were exhausted upon the first authorized sale abroad." *Foreign Sale Opinion*, 9 F. Supp. 3d at 834 (footnote omitted).

The court stated that "[t]he Supreme Court's decision was rooted in interpretation of a statutory provision of copyright law," namely, 17 U.S.C. § 109(a). *Foreign Sale Opinion*, 9 F. Supp. 3d at 833. The district court noted the absence from *Kirtsaeng* of any discussion of exhaustion in the patent field and the Supreme Court's longstanding recognition that copyright law and patent law are not interchangeable. *Id.* at 835 (citing *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 346 (1908)). It added that *Kirtsaeng* "is rooted in statutory and legislative interpretation of section 109(a) of the Copyright Act," but "[n]oticeably absent from patent law is a codification of the exhaustion doctrine," concluding: "the core statutory text that weighed in favor of a non-geographical interpretation is non-existent in the context of patent law." *Id.* The Patent Act, the court concluded, calls for its own analysis of "context, history and practical considerations." *Id.* at 836.

For those reasons, while recognizing that this court might reconsider *Jazz Photo* in light of *Kirtsaeng*, the district court held that *Jazz Photo* remains good law. *Id.* at 837–38. The court therefore denied Impression's motion to dismiss Lexmark's claim of infringement involving the Foreign-Sold Cartridges. *Id.* at 838.

3

Soon thereafter, with the parties' agreement, the court entered a "Stipulated Final Judgment." J.A. 1. The judgment was (a) for Impression (*i.e.*, Impression does not infringe) as to the Return Program cartridg-

es whose precursors Lexmark had sold in the United States and (b) for Lexmark (*i.e.*, Impression infringes) as to cartridges whose precursors Lexmark had initially sold abroad. *Id.* The parties agree that the judgment is final under 28 U.S.C. § 1295(a)(1), even as to cartridges found to infringe.

In agreeing to the final judgment of infringement as to the foreign-sold cartridges, which remained an open issue after the Rule 12(b)(6) rulings, Impression reasonably construed the district court's *Jazz Photo* ruling to foreclose its exhaustion defense, even though all the district court had done was to deny Impression's request for judgment in its favor based on that defense. In particular, the district court's rationale as to the unavailability of exhaustion did not depend on the facts in the record that Lexmark identifies as suggesting the "regional" character of its foreign-sold cartridges, facts that therefore went unexplored in the district court. And, notably, when Impression agreed to a judgment of infringement as to foreign-sold cartridges, it did not preserve an implied-license defense, even though the Supreme Court made clear in *Quanta* the distinctness of implied-license and exhaustion defenses. 553 U.S. at 637.

D

Impression appealed and Lexmark cross-appealed. This court has jurisdiction under 28 U.S.C. § 1295(a)(1). The parties submitted briefs and presented oral argument to a panel of this court, focused on whether *Quanta* had stripped *Mallinckrodt* of its controlling force and whether *Kirtsaeng* had stripped *Jazz Photo* of its controlling force.

Shortly after oral argument, this court sua sponte took the case en banc. *Lexmark Int'l, Inc.* v.

Impression Prods., Inc., 785 F.3d 565 (Fed. Cir. 2015). We directed the parties to address the following issues:

> (a) The case involves certain sales, made abroad, of articles patented in the United States. In light of *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), should this court overrule *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion[?]
>
> (b) The case involves (i) sales of patented articles to end users under a restriction that they use the articles once and then return them and (ii) sales of the same patented articles to resellers under a restriction that resales take place under the single-use-and-return restriction. Do any of those sales give rise to patent exhaustion? In light of *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617 (2008), should this court overrule *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), to the extent it ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion?

Id. at 566.

DISCUSSION

I

The Patent Act's language defines the framework within which the two exhaustion questions arise. In 1952, based on pre-existing uncodified understandings, Congress set forth a statutory prescription of what constitutes patent "infringement." *See Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 483–84 (1964) (*Aro II*); *Aro I*, 365 U.S. at 341–42 & n.8. In its current form, which includes a bar on importation and offers to sell added by a 1994 enactment, § 271(a) states that, unless another provision of the Act provides otherwise, whoever "without authority" during the term of a patent commits certain acts— "makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention"— "infringes the patent." 35 U.S.C. § 271(a).

Section 271(a) connects "make," "sell," "use," and the other terms with the disjunction "or," as does the related provision granting the patentee various rights to exclude others from the same activities, *id.* § 154(a). Congress has thus prescribed that whoever, "without authority," does any one of the listed acts— "the making, using, offering to sell, selling, *or* importing of a patented invention," *Global-Tech Appliances, Inc.* v. *SEB S.A.*, 131 S. Ct. 2060, 2065 (2011) (emphasis added)—is an infringer. *See* 5 Donald S. Chisum, Chisum on Patents § 16.01 (2015) ("The exclusive rights are disjunctive: one may infringe by (1) making without selling or using, (2) using without making or selling or (3) selling without making or using.") (footnote omitted); William C. Robinson, The Law of Patents §§ 903–906 (1890). The government observes: "Nothing in the text of the Patent Act ex-

pressly prevents a patentee from demanding compensation from each downstream user or reseller of an article embodying his invention." U.S. Br. 5.

Section 271(a)'s language embodies an understanding of "infringement" that was long recognized even before Congress enacted § 271 as part of the 1952 recodification of the patent laws. The pre-1952 statute included a right-to-exclude provision comparable to § 154, which, in language that varied over time, gave the patentee a right to exclude others (not a right to practice the invention). *See* 35 U.S.C. § 40 (1946); Rev. Stat. § 4884; *Bauer & Cie.* v. *O'Donnell*, 229 U.S. 1, 9–10 (1913); 5 Chisum § 16.02[1]. But while the pre-1952 statute provided for actions for "infringement," *e.g.*, 35 U.S.C. §§ 67, 70 (1948); Rev. Stat. §§ 4919, 4921, there was no provision prescribing what constitutes infringement. Nevertheless, the courts consistently understood infringement to mean what § 271 came to say—committing the identified acts without authority (synonymously, without consent or permission): "The infringement of a patent, being the invasion of this exclusive right, therefore consists in the manufacture, use, or sale of the invention protected by the patent within the area and time described in the patent, *by any person not duly authorized to do so by the patentee*." Robinson, § 890, at 43–44 (emphasis added); *see* 3 Anthony William Deller, Walker on Patents § 450, at 1681 (1937) ("An infringement is the unauthorized making or using or selling of the patented invention.").[3] Thus, the 1952

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[3] *See, e.g., Global-Tech Appliances, Inc.*, 131 S. Ct. at 2065 n.2; *General Talking Pictures*, 304 U.S. at 181–82; *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 38 (1923); *Geneva Furniture Mfg. Co.* v. *S. Karpen & Bros.*, 238 U.S. 254, 257 (1915); *Cantrell* v. *Wallick*, 117 U.S. 689, 694 (1886); *Blake* v. *Robertson*, 94 U.S. 728, 733 (1876); *Smith* v. *Nichols*, 88 U.S.

Act's "without authority" language simply codifies an authority requirement long recognized to be the meaning of "infringement" of the enumerated rights to exclude. *See Warner-Jenkinson Co.* v. *Hilton Davis Chem. Co.*, 520 U.S. 17, 26–27 (1997) (§ 271(a) left direct-infringement law intact); *Aro II*, 377 U.S. at 483; *Aro I*, 365 U.S. at 342; Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 21 Geo. Wash. L. Rev. 521, 537 (1953).

The requirement of "authority" in order to avoid infringement, in its natural meaning, refers to a grant of permission. Logically, permission might come from Congress, whether outside the Patent Act or within the Patent Act itself, as reflected in § 271(a)'s "[e]xcept as otherwise provided in [the Patent Act]" language, which explicitly bows to other contrary sections of the Patent Act. But it is undisputed that no other statutory provision applies in this case. *See* U.S. Br. 5; *compare* 35 U.S.C. § 262 (each joint owner of a patent may engage in making, using, selling, offering to sell, and importing without authority from other owners). Nothing in the Act supersedes the § 271 requirement of authority from the patentee before a person in Impression's position may engage in the itemized acts without infringing.

In this respect, the Patent Act differs from the Copyright Act. In the copyright statute, Congress included a provision giving a right of sale to certain article owners, 17 U.S.C. § 109(a), and made the infringement, importation, and exclusive-rights provi-

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(21 Wall.) 112, 118–19 (1875); *Bloomer*, 55 U.S. (14 How.) at 549.

sions all subservient to that express guarantee.[4] The Patent Act does not contain a congressionally prescribed exhaustion rule, let alone a provision that makes the express definition of infringement and rights to exclude (both of which now encompass importation) subservient to any congressionally expressed exhaustion rule.[5]

In the Patent Act, then, as relevant here, it is a conferral of "authority" by the patentee that is needed in order for the actions listed in § 271(a) not to constitute infringement. As the government says, noting the parallelism of § 271(a) and the § 154(a) grant of rights to exclude, what § 271(a) means is that "[w]hoever does any of these acts 'without au-

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[4] 17 U.S.C. § 501(a) defines "an infringer of the copyright" as "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122." Section 106 gives the copyright owner "the exclusive rights to do and to authorize" certain actions, such as making copies and "distribut[ing] copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership," *id.* § 106(1), (3), but it declares that those rights are "[s]ubject to sections 107 through 122"—hence to section 109(a). Similarly, § 602(a) declares importation to be "an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501." Section 602 makes the importation bar subservient to § 109(a) by making it subservient to the § 106(3) right, which in turn is subservient to § 109(a), as the Supreme Court held in *Quality King Distributors, Inc.* v. *L'anza Research International, Inc.*, 523 U.S. 135, 145 (1998), and reiterated in *Kirtsaeng*, 133 S. Ct. at 1354–55.

[5] Since 1999 Congress has provided a prior-use defense to infringement in certain circumstances and, in so doing, given a sale or disposition by a person having a prior-use defense the same exhaustion effect as a sale or disposition by a patent owner. *See* 35 U.S.C. § 273(d); *id.* § 273(b)(2) (2006). But Congress has not defined the underlying patent-exhaustion rule.

thority' *from the patentee* infringes the patent." U.S. Br. 1 (emphasis added). In brief: § 271(a) by its terms requires that whoever engages in the enumerated acts receive permission from the patentee (directly or indirectly) for the acts being performed, which otherwise are infringing; and nothing in § 271(a) constrains the patentee's choices about whom to grant the required authority, if anyone, or about which acts (of manufacture, use, sale, etc.) to authorize, if any.

Congress defines the existence and scope of patent rights. *See, e.g.*, *Octane Fitness, LLC* v. *ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1755–56 (2014); *Crown Die & Tool Co.*, 261 U.S. at 40; *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 423 (1908). Unless Congress has directed the courts to fashion governing rules in a particular statutory context (as in, *e.g.*, the Sherman Act), "once Congress addresses a subject, even a subject previously governed by federal common law, the justification for lawmaking by the federal courts is greatly diminished. Thereafter, the task of the federal courts is to interpret and apply statutory law, not to create common law." *Northwest Airlines, Inc.* v. *Transp. Workers Union of Am.*, 451 U.S. 77, 95 n.34 (1981); *see City of Milwaukee* v. *Illinois*, 451 U.S. 304, 315 (1981) ("Our commitment to the separation of powers is too fundamental to continue to rely on federal common law by judicially decreeing what accords with common sense and the public weal when Congress has addressed the problem.") (internal quotation marks omitted); *Am. Elec. Power Co.* v. *Connecticut*, 131 S. Ct. 2527, 2537 (2011).

If ordinary congressional supremacy is to be respected, exhaustion doctrine in the Patent Act must be understood as an interpretation of § 271(a)'s "without authority" language. And so it has been un-

derstood: some sales confer authority on the purchaser to take certain actions—such as selling or using the purchased article in the United States or importing it into the United States—that would otherwise be infringing acts. *See* 5 Chisum § 16.03[2][a], at 16-362.8; U.S. Br. 1 (tying exhaustion to "authority" language of § 271(a)). We decide here (a) whether a sale, even though accompanied by a clearly communicated and otherwise-lawful denial of such authority, nonetheless has the legal effect of conferring such authority and (b) whether a foreign sale has the legal effect of conferring such authority where (as we must assume at present in this case) neither a grant nor a reservation of § 271(a) rights was communicated to the purchaser before the foreign sale.[6]

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[6] Before 1952, the patent statute provided that "[e]very person who purchases of the inventor, . . . or with his knowledge and consent constructs any newly invented . . . machine, or other patentable article, prior to the application by the inventor . . . for a patent, or who sells or uses one so constructed, shall have the right to use, and vend to others to be used, the specific thing so made or purchased, without liability therefor." 35 U.S.C. § 48 (1946); Rev. Stat. § 4899. That provision dated from 1870; a broader version (from 1839) did not depend on purchase from the inventor or construction with the inventor's knowledge and consent. *See Dable Grain Shovel Co.* v. *Flint*, 137 U.S. 41, 42 (1890). The pre-1952 provision was viewed as a species of "implied license." 3 Walker on Patents § 451, at 1682–83; Robinson, § 917, at 88.

The Patent Act of 1952 repealed the provision, the House Report briefly explaining that it was "[r]edundant and unnecessary." H.R. Rep. No. 82-1923, at 72 (1952). No argument for the significance of the repeal has been made to us—perhaps because (1) the provision did not depend on a sale; (2) it involved (pre-patent) conduct viewed as giving an "implied license," which the Court has distinguished from "exhaustion," *Quanta*, 553 U.S. at 637; and (3) it was not authoritatively construed to apply even to sales subject to authority-denying restrictions.

II

The *Mallinckrodt* issue has been framed for us in clear terms. Suppose that Lexmark had granted another firm a nonexclusive license to make and sell Return Program cartridges. It is undisputed and clear under Supreme Court precedent—most prominently, the 1938 decision in *General Talking Pictures*—that Lexmark would not have exhausted its patent rights in those cartridges, upon the manufacturing licensee's sale (the first sale), if a buyer with knowledge of the restrictions resold or reused them in violation of the restrictions. Impression and the government contend that a different result is required—that Lexmark automatically lost its patent rights—simply because Lexmark sold the Return Program cartridges itself, subject to the same communicated restriction, rather than having left the manufacture and sale to others under license. *See* U.S. Br. 7, 8, 10, 11 (case turns on distinction between patentee sale and non-patentee licensee sale). (Impression has left the en banc briefing on this issue largely to the government.)

We conclude otherwise, as we did in *Mallinckrodt* and subsequent decisions. A sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the "authority" to engage in the use or resale that the restriction precludes. And there is no sound reason, and no Supreme Court precedent, requiring a distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product.

A

Mallinckrodt involved a patentee's sale of its medical device to hospitals, subject to a "single use only" restriction. The device consisted of a nebulizer and associated components for delivering to a patient, for diagnosis or treatment of lung diseases, a mist of radioactive or therapeutic material. It also trapped radioactive or toxic material when the patient exhaled. Mallinckrodt sold it under the single-use condition and with instructions for post-use disposal in a lead-shielded container. But some hospital purchasers instead sent used devices to Medipart for reconditioning and for replacement of certain components. When Mallinckrodt sued Medipart for direct and indirect infringement by virtue of the reuse in violation of the single-use restriction, the district court granted Medipart summary judgment of non-infringement, concluding that Mallinckrodt's sale of the devices exhausted its ability to assert its patent rights in the units sold. 976 F.2d at 701–02.

This court reversed. *Id.* at 709. The court stated its ruling: "The restriction here at issue does not *per se* violate the doctrine of patent misuse or the antitrust law. Use in violation of a valid restriction may be remedied under the patent law, provided that no other law prevents enforcement of the patent." *Id.* at 701.

In explanation, the court observed that the patent grant of § 154 is a "right to exclude," which "may be waived in whole or in part," "subject to patent, contract, antitrust, and any other applicable law, as well as equitable considerations such as are reflected in the law of patent misuse." *Mallinckrodt*, 976 F.2d at 703. It noted that the Supreme Court had held that two particular types of restrictions in sales ex-

ceeded the legitimate scope of patent rights, so that the patentee did not retain its patent rights against a buyer's sale or use of a patented article in violation of those particular conditions: resale-price-maintenance conditions, *Bauer*, 229 U.S. 1; *Straus* v. *Victor Talking Machine Co.*, 243 U.S. 490 (1917); *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U.S. 8 (1918), and tying arrangements requiring use of non-patented articles with the patented one, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917). *Mallinckrodt*, 976 F.2d at 704. The *Mallinckrodt* court explained that those cases "did not hold, and it did not follow, that all restrictions accompanying the sale of patented goods were deemed illegal." *Id.*

The court then described the key Supreme Court precedent, *General Talking Pictures*. As the *Mallinckrodt* court observed, in *General Talking Pictures* "the patentee had authorized the licensee to make and sell amplifiers embodying the patented invention for a specified use (home radios)," and "[t]he defendant had purchased the patented amplifier from the manufacturing licensee, with knowledge of the patentee's restriction on use," but used it contrary to the restriction. *Id.* at 705. The Supreme Court held that the defendant was liable for infringement; it "observed that a restrictive license to a particular use was permissible, and treated the purchaser's unauthorized use as infringement of the patent." *Id.* This court noted that the Supreme Court in *General Talking Pictures* "did not decide the situation where the patentee was the manufacturer" and seller. *Id.* This court then held that to distinguish the patentee sale (at issue in *Mallinckrodt*) from the licensee sale (at issue in *General Talking Pictures*) would be to

make "formalistic distinctions of no economic consequence." *Id.*

Finally, the court described "a group of cases in which the Supreme Court considered and affirmed the basic principles that unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device; and that the sale of patented goods, like other goods, can be conditioned." *Id.* at 706. This court noted that, insofar as several cases ruling against patentees' claims discussed or involved sales, the sales were not made under restrictions as to use. *Id.* at 707 (discussing *Bloomer*, 55 U.S. (14 How.) 539; *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453 (1873); *Keeler* v. *Standard Folding Bed Co.*, 157 U.S. 659 (1895)). The court also noted the statement in *Mitchell* v. *Hawley* that "[s]ales of the kind may be made by the patentee with or without conditions," 83 U.S. (16 Wall.) 544, 548 (1873), and the holding of *Mitchell* that a purchaser of a patented machine "licensed for use only during the original term of the patent" was liable for infringement for using the machine past that term when the patent term was extended. 976 F.2d at 707.

The court in *Mallinckrodt* concluded that "[u]nless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law, *e.g.*, *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942)), private parties retain the freedom to contract concerning conditions of sale." 976 F.2d at 708. Thus, unless a sale restriction is improper under some other body of law, whether within the Patent Act or outside it, a patentee's own sale of its patented article subject to a clearly communicated restriction does not confer authority to sell or use the article in violation of that restriction, *i.e.*, does not exhaust the patentee's § 271 rights against such con-

duct involving that article. Since *Mallinckrodt*, we have followed that principle. *B. Braun Med., Inc.* v. *Abbott Labs.*, 124 F.3d 1419, 1426 (Fed. Cir. 1997); *Princo Corp.* v. *Int'l Trade Comm'n*, 616 F.3d 1318, 1328 (Fed. Cir. 2010) (en banc).

B

The district court concluded in this case that *Quanta* overturned the *Mallinckrodt* rule as to a patentee's sale of a patented article subject to a clearly communicated single-use/no-resale restriction. But no issue as to such a sale was presented for decision or decided in *Quanta*. And the Supreme Court in *Quanta* did not address the distinction between patentee sales and licensee sales on which the argument for overturning *Mallinckrodt* rests.

Quanta did not involve a patentee's sale at all, let alone one subject to a restriction or, more particularly, a single-use/no-resale restriction. *Quanta* involved a sale made (to computer maker Quanta) not by the patentee (LGE) but by a manufacturing licensee (chip maker Intel), which the patentee had authorized to make and sell the articles at issue (chips for installation in computers that would then be covered by LGE's patents). 553 U.S. at 623–25. And the patentee's authorization to the licensee to make (the first) sales was *not* subject to any conditions, much less conditions to be embodied in those sales. *Id.* at 636–38. While Intel had certain other contractual obligations to LGE regarding notice to Intel's purchasers, neither party contended that Intel breached those obligations, and in any event, the Court repeatedly stated that the relevant LGE-Intel contract gave Intel an unrestricted authorization to sell the articles. *Id.* at 636–37 ("Intel's authority to sell its products embodying the LGE Patents was not condi-

tioned on the notice or on Quanta's decision to abide by LGE's directions in that notice."); *id.* at 637 ("The License Agreement authorized Intel to sell products that practiced the LGE Patents. No conditions limited Intel's authority to sell products substantially embodying the patents."); *id.* at 638 ("Nothing in the License Agreement limited Intel's ability to sell its products practicing the LGE Patents.").

In short, *Quanta* did not involve the issue presented here. The facts defining the issues for decision, and the issues decided, were at least two steps removed from the present case. There were no patentee sales, and there were no restrictions on the sales made by the licensee.

The two main issues decided by the Court in *Quanta* have no bearing on the issue of restricted sales by a patentee. The Court decided that exhaustion applies to method claims. *Id.* at 628–30. And the Court decided "the extent to which a product must embody a patent in order to trigger exhaustion." *Id.* at 630; *see id.* at 630–35.

Only the third issue addressed by the Court in *Quanta* concerns restrictions on sales—though not patentees' sales—and the Court's discussion of that issue does not undermine *Mallinckrodt*'s ruling that a patentee can preserve its patent rights through restrictions on its sales. As just described, when LGE invoked precedent such as *General Talking Pictures* that make clear that patentees are able to preserve their patent rights through restrictions on the sales they authorizes licensees to make, *Quanta*, 553 U.S. at 636, the Court's response was to conclude that there simply were no such restrictions on LGE's grant to Intel of the authority to sell. *Id.* at 636– 38. The Court thus had prominently in view the princi-

ple that, through at least one path, a patentee can reserve its patent rights through sale restrictions. The Court found the principle inapplicable to the case before it because of the absence of any restriction, and the Court said nothing to cast doubt on the principle. Indeed, the Court indirectly underscored the principle when it quoted *Motion Picture Patents* as stating "the rule" of exhaustion in terms expressly based on an " 'unconditional sale.' " *Quanta*, 553 U.S. at 626 (quoting *Motion Picture Patents*, 243 U.S. at 516). And the Court did not consider whether or decide that the principle was limited to contracted-out, as distinguished from in-house, manufacturing and sales, or even recognize and discuss such a distinction.

Inferring disapproval of *Mallinckrodt* by the Supreme Court in *Quanta* is unwarranted for another reason. The decision of this court under review in *Quanta* relied centrally on *Mallinckrodt* and its successor case, *B. Braun Medical. See LG Elecs., Inc.* v. *Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006). In the Supreme Court, the government prominently featured an argument that *Mallinckrodt* was incorrect and should be repudiated, U.S. Amicus Brief at 18–24, *Quanta* (No. 06-937), 2007 WL 3353102, and Quanta presented similar criticisms of *Mallinckrodt*, Brief for Petitioner at 13, 30–33, *Quanta* (No. 06-937), 2007 WL 3276505. Yet the Supreme Court said nothing about *Mallinckrodt* or *B. Braun Medical*. The evident explanation is that, at a minimum, no question was presented for decision—or was being decided—as to the effect a restriction on the first sale, whether made by a patentee or by a manufacturing licensee, would have on preservation of § 271 rights.

C

For the foregoing reasons, the challenge to *Mallinckrodt* in the present case cannot rest on what the Supreme Court in *Quanta* ruled about the issues it said it was addressing or the facts and issues presented for decision. The challenge asserts that any post-sale restriction in a patentee's own sale fails, as a matter of law, to preserve the patentee's § 271 rights against unauthorized sales or uses. The argument rests ultimately on language the Court used in *Quanta* in introducing the exhaustion doctrine before defining the specific issues for decision— as it has done elsewhere.

The Court in *Quanta* said: "The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." 553 U.S. at 625. More recently, the Court used similar "authorized sale" language in introducing the exhaustion doctrine in *Bowman* v. *Monsanto Co.*, which held that a patentee, by selling patented seeds, does not lose its § 271 right to prevent the buyer from making new seeds. The Court said: "Under the doctrine of patent exhaustion, the authorized sale of a patented article gives the purchaser, or any subsequent owner, a right to use or resell that article." 133 S. Ct. 1761, 1764 (2013). *See also, e.g.*, *Univis*, 316 U.S. at 249 ("authorized sale"); Dissent at 3–5.

The challenge to *Mallinckrodt* asserts that any sale of a patented article by a patentee, even when the rights granted are expressly restricted, is automatically an "authorized sale," causing the patentee to lose all § 271 rights in the item sold. That consequence follows, the argument goes, no matter how clearly the patentee states an otherwise-lawful re-

striction on what authority is being conferred and what authority is being withheld. In this view, exhaustion law embodies a sharp distinction between a sale by a patentee (for which restrictions are to be disregarded) and a sale made by another person authorized by the patentee to sell, *i.e.*, a licensee as in *General Talking Pictures* (for which a patentee may preserve its § 271 rights by restricting the licensee's authorized sales).

That is an extraordinary doctrinal consequence to find established by the Supreme Court's use of the phrase "authorized sale." No one suggests that *Bowman* (concerning new articles) intended such consequences. And there are good reasons not to find any such implied meaning in *Quanta* either.

1

Most obviously, as discussed above, the Court was not addressing the patentee-sale/licensee-sale distinction. Among other things, the Court did not consider the issues presented by making such a distinction, such as where the line would sensibly be drawn along the spectrum that includes original patentees, assignees, exclusive licensees, and nonexclusive licensees. Such distinctions matter for determining who may bring infringement suits, but they can involve detailed inquiries into the contractual relationships between an original patent owner and others (here, a first seller), based on information a buyer may have no ability or reason to acquire. *See, e.g.*, *Independent Wireless Telegraph Co.* v. *Radio Corp. of Am.*, 269 U.S. 459, 464–69 (1926); *Crown Die & Tool*, 261 U.S. at 40–41; *E.W. Bliss Co.* v. *United States*, 253 U.S. 187, 192 (1920); *Pope Mfg. Co.* v. *Gormully & Jeffery Mfg. Co.*, 144 U.S. 248 (1892); *Waterman* v. *Mackenzie*, 138 U.S. 252, 255–

56 (1891); 8 Chisum § 21.03. Nothing in *Quanta* suggests that the Court either considered such issues or intended to build such inquiries into the exhaustion doctrine by making the distinction the government now urges.

2

One cannot infer the contrary from the immediate context of the "authorized sale" phrase, *i.e.*, from the several decisions that *Quanta* briefly describes in the paragraph it introduces with the "authorized sale" shorthand. 553 U.S. at 625. Those decisions did not involve restricted patentee sales of patented articles. And the *Quanta* Court, in describing those cases, said nothing to indicate adoption of a patentee-sale/licensee-sale distinction.

Thus, *Bloomer* v. *McQuewan* identifies no sale of a patented article as involved in the case. During an initial patent term, a license granted to the defendants (via Collins and Smith, then Barnet, then Warner and McQuewan) the right to make patented machines and use them "without any limitation as to the time for which they were to be used." 55 U.S. (14 How.) at 553; *id.* at 540–41, 548. When the defendants made and used such machines, and the patent term was later extended, the Supreme Court held that the unrestricted right to use did not end when the earlier patent term ended, because the right to use did not come from the patent statute, which grants only rights to exclude, not rights to practice. *Id.* at 549–50. The Court discussed purchased articles, but with no restrictions at issue, it did not decide the effect that any restrictions would have. *Id.*

Bloomer v. *Millinger*, 68 U.S. (1 Wall.) 340 (1864), is similar in its facts to *McQuewan*. The Court held that Millinger, who "constructed the ma-

chines and put them in operation under the authority of the patentee or his assigns" during a first term extension, was not subject to an infringement action for continued use during a second term extension. *Id.* at 349, 350. The Court made no distinction between construction and purchase, or between purchases "from the patentee . . . or from any other person by him authorized to" make the sale, on the issues addressed. *Id.* at 350, 351. In referring to a constructor or purchaser of a patented machine having "*also* acquired the right to use and operate it during the lifetime of the patent," *id.* at 350 (emphasis added), the Court implicitly recognized that a purchaser might *not* acquire a full right to use an acquired article.

And in *Adams* v. *Burke*, the Boston regional assignee (Lockhart & Seelye) sold patented coffin lids to Burke, "*without condition or restriction.*" 84 U.S. (17 Wall.) at 455 (emphasis added). When Burke used the lids outside the Boston territory, for burials within a different territory where Adams was the regional assignee, Adams sued. The Court held that, for such an unrestricted sale, "there is no restriction on their ***use to be implied*** for the benefit of the patentee or his assignees or licensees." *Id.* at 457 (bold italics added).

When the Supreme Court in *Quanta* moved beyond the *Bloomer* cases and *Adams*, it likewise did not advance a patentee-sale/licensee-sale distinction. 553 U.S. at 625–26. The Court's next paragraph recounts the developments of the 1910s: The Court initially adopted a broad greater-includes-the-lesser approach allowing preservation of patent rights through even otherwise-unlawful restrictions, such as tie-ins, *Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912); but the Court quickly rejected that broad principle and its application to resale price maintenance, *Bau-*

er, 229 U.S. 1 (1913), and then to tie-ins, *Motion Picture Patents*, 243 U.S. 502 (1917), the latter expressly overruling *A.B. Dick*. The Court in *Quanta*, summarizing that history, said nothing about the patentee-sale/licensee-sale distinction; and it recognized that the "rule" that emerged, as quoted from *Motion Picture Patents*, was one based on " 'a single, *unconditional* sale.' " 553 U.S. at 626 (emphasis added).

The Court in *Quanta* then proceeded to a longer discussion of *Univis*. That discussion made no patentee-sale/licensee-sale distinction. Rather, it recounted *Univis*'s application of exhaustion to sales of articles that may not be strictly covered by the patent but that sufficiently embody the patent. 553 U.S. at 627–28.

In no part of the Court's discussion did the Court consider which cases involved "patentee" sales and which "licensee" sales. Indeed, it is not always easy to tell where the facts of each case fall on the spectrum from original patentee through non-exclusive licensee. *See, e.g.*, *Bauer*, 229 U.S. at 8 (seller was either "agent" or "licensee"). The Court in *Quanta* did not say that the inquiry mattered. And in *Univis*, the Court did the opposite of suggesting that the distinction matters: it affirmatively stated that it was treating the patent owner (Univis Corporation) and the licensee-seller (Lens Company) as the same for purposes of its analysis. 316 U.S. at 243.

3

In these circumstances, it would read too much into the Court's use of the phrase "authorized sale" to draw the government's conclusion—making the sharp patentee-sale/licensee-sale distinction— without full analysis of statutory, precedential, and other

considerations. Full analysis of the relevant legal context is necessary.

Such analysis would be required regardless, but it is important to note that the phrase "authorized sale" does not, by its words alone, compel the government's conclusion. It has long been a familiar feature of our legal landscape that property rights in a particular thing—like the separate interests in making, selling, using, etc., an invention—are viewed as a "bundle" of rights (or sticks) that can generally be transferred separately.[7] Of course, particular legal regimes, for various purposes, commonly identify the transfer of particular rights as determinative of a "sale." In determining which transfers are decisive, context matters. And here the context is a statute that identifies separate rights of manufacture, sale, use, etc., and the precedential setting is one that expressly recognizes the possibility of separating the rights in a patented article. *See, e.g.*, *Mitchell*, 83 U.S. (16 Wall.) at 547 (exhaustion exists when a patentee "has himself constructed a machine and sold it *without any conditions*, or authorized another to construct, sell, and deliver it, or to construct and use and operate it, *without any conditions* . . ."; "the own-

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[7] *See, e.g.*, *Horne* v. *Dep't of Agric.*, 135 S. Ct. 2419, 2428 (2015); *Tahoe-Sierra Pres. Council, Inc.* v. *Tahoe Reg'l Planning Agency*, 535 U.S. 302, 327 (2002); *New York Times Co.* v. *Tasini*, 533 U.S. 483, 495–96 (2001); *Keystone Bituminous Coal Ass'n* v. *DeBenedictis*, 480 U.S. 470, 500–01 (1987); *United States* v. *Sec. Indus. Bank*, 459 U.S. 70, 75–76 (1982); *Loretto* v. *Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 433 (1982); *Kaiser Aetna* v. *United States*, 444 U.S. 164, 176 (1979); *Fidelity-Phila. Trust Co.* v. *Smith*, 356 U.S. 274, 278–79 (1958); *Guggenheim* v. *Rasquin*, 312 U.S. 254, 257–58 (1941); *Charles C. Steward Mach. Co.* v. *Davis*, 301 U.S. 548, 580–81 (1937); *Henneford* v. *Silas Mason Co.*, 300 U.S. 577, 582 (1937).

er of the machine, whether he built it or purchased it, *if he has also acquired the right to use and operate it during the lifetime of the patent*, may continue to use it") (emphases added); *Bloomer* v. *Millinger*, 68 U.S. (1 Wall.) at 350. Moreover, the statutory purpose of the inquiry here is to identify what sales confer "authority" on the buyer to engage in distinct, otherwise-infringing acts.

Context is particularly important where, as here, the phrase being interpreted comes from judicial opinions not directly deciding the point at issue. Chief Justice Marshall wrote for the Court almost 200 years ago: "It is a maxim not to be disregarded, that general expressions, in every opinion, are to be taken in connection with the case in which those expressions are used." *Cohens* v. *Virginia*, 19 U.S. (6 Wheat.) 264, 399–400 (1821); *see Armour & Co.* v. *Wantock*, 323 U.S. 126, 132–33 (1944) (per Jackson, J.) ("[W]ords of our opinions are to be read in the light of the facts of the case under discussion. . . . General expressions transposed to other facts are often misleading.").[8] We bear that maxim in mind in applying the body of Supreme Court case law on ex-

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[8] *See also Ark. Game & Fish Comm'n* v. *United States*, 133 S. Ct. 511, 520 (2012) (quoting *Cohens*); *United States* v. *Alvarez*, 132 S. Ct. 2537, 2544–45 (2012); *Illinois* v. *Lidster*, 540 U.S. 419, 424 (2004); *Reiter* v. *Sonotone Corp.*, 442 U.S. 330, 341 (1979); *United Gas Improvement Co.* v. *Cont'l Oil Co.*, 381 U.S. 392, 404 (1965); *Wright* v. *United States*, 302 U.S. 583, 593–94 (1938); *Sterling* v. *Constantin*, 287 U.S. 378, 400 (1932) ("the general language of the opinion must be taken in connection with the point actually decided"); *Pacific S.S. Co.* v. *Peterson*, 278 U.S. 130, 136 (1928); *Bramwell* v. *U.S. Fid. & Guar.Co.*, 269 U.S. 483, 489 (1926) ("It is a rule of universal application that general expressions used in a court's opinion are to be taken in connection with the case under consideration.").

haustion: that body of precedent contains no decision against a patentee's infringement assertion in the present circumstances, and the decisions on related circumstances require careful reading to determine the best understanding of what issues the Court actually decided.

D

We conclude that a patentee may preserve its § 271 rights when itself selling a patented article, through clearly communicated, otherwise-lawful restrictions, as it may do when contracting out the manufacturing and sale.

1

That conclusion follows naturally from the statute. Congress straightforwardly prescribed, in § 271(a), that a sale or use of a patented article "without authority" is an infringement. Under that language, a clear denial of authority leaves a buyer without the denied authority.

The exhaustion rule for *un*restricted sales readily fits the language of § 271(a). It is reasonable for the courts to treat a patentee-made or patentee-authorized sale of a patented article (without distinction) as *presumptively* granting "authority" to the purchaser to use it and resell it. Such an approach recognizes the utility of having a default rule for determining whether authority has been conferred in the many circumstances where an express conferral is missing. And it chooses as the default a principle that sensibly accords with parties' likely expectations as to a domestic sale.

But it is quite a different matter to treat a sale as conferring on the buyer the very authority that is being denied through clearly communicated re-

strictions. *Mallinckrodt* sensibly rejects that countertextual result. Unless granting "authority" is to be a legal fiction, a patentee does not grant authority by denying it. And that is so for patentee sales and licensee sales alike, *i.e.*, whether the patentee denies the authority to its direct purchaser or to one purchasing through a manufacturing licensee. For the same reason, the result does not reasonably reflect market participants' expectations: a buyer cannot reasonably expect that the seller is conferring authority that the seller is expressly denying, whether the seller is the patentee or a manufacturing licensee. The statutory question of authority neither allows denials to be grants nor logically depends on whether there is an intermediary between the patentee and the first buyer.

In short, the government's position would create a rule of court-made law that runs counter to, rather than accords with, the statutory definition of actionable infringement. An exhaustion rule should fit rather than contradict the statutory text.

2

Under longstanding Supreme Court precedent, a patentee may preserve its patent rights against downstream buyers by arranging with someone else, even a nonexclusive licensee, to make and sell patented articles, under clearly stated restrictions on post-sale activities. There is no good reason that a patentee that makes and sells the articles itself should be denied the ability that is guaranteed to a non-practicing-entity patentee. No precedent requires a contrary conclusion.

a. The Supreme Court has recognized that a patentee *may* preserve its rights against infringement by establishing restrictions accompanying the sale of

the patented article (communicated at the time of sale), including restrictions on the buyer's post-acquisition use. That recognition is implicit in the *Motion Picture Patents* statement of the exhaustion rule as based on an "unconditional" sale, as quoted in *Quanta*, 553 U.S. at 626. More affirmatively, the Court upheld a claim of infringement on that basis in *Mitchell* v. *Hawley*, where the licensee seller was under a restriction as to the (temporal) scope of rights it could and did convey when selling the patented machine. *Mitchell* involved a licensee seller, but the Court stated the exhaustion principles in terms keyed to the absence of conditions and applicable to patentee sales:

> [W]hen [the patentee] has himself constructed a machine and sold it without any conditions, or authorized another to construct, sell, and deliver it, or to construct and use and operate it, without any conditions, and the consideration has been paid to him for the thing patented, the rule is well established that the patentee must be understood to have parted to that extent with all his exclusive right, and that he ceases to have any interest whatever in the patented machine so sold and delivered or authorized to be constructed and operated.

83 U.S. (16 Wall.) at 547; *see id.* at 548 (sales "may be made by the patentee with or without conditions, as in other cases, but where the sale is absolute, and without any conditions, the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out").[9] Although

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[9] We do not see a sufficient basis to read *Mitchell*'s "without conditions" language as limited to sales in which title is not

Mitchell involved a licensee sale, its language did not distinguish licensees' sales from patentees' sales in the respects discussed, and it was not long before the Court invoked those formulations in a patentee-sale case. *Keeler*, 157 U.S. at 662–63.

Most importantly, the Court squarely held in the *General Talking Pictures* case that a patentee could preserve its infringement rights against unauthorized uses by restricting manufacturing licensees' authority to sell for such uses. *General Talking Pictures Corp.* v. *Western Elec. Co.*, 304 U.S. 175, *opinion on rehearing at* 305 U.S. 124 (1938). Companies holding patent rights in certain amplifiers (AT&T, Western Electric, RCA) licensed the American Transformer Company to make and sell amplifiers. The Transformer Company "was a mere licensee under a non-exclusive license, amounting to no more than 'a mere waiver of the right to sue.' " 304 U.S. at 181 (quoting *De Forest Radio Telephone & Telegraph Co.* v. *United States*, 273 U.S. 236, 242 (1927)). The license permitted sales only "for radio amateur reception, radio experimental reception, and home broadcast reception," not "for use in theaters as a part of talking picture equipment." *Id.* at 180. The Transformer Company nevertheless sold amplifiers to General Talking Pictures for theater use in violation of the restriction, and General Talking Pictures "had actual knowledge

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transferred until a condition is fulfilled (sometimes called "conditional sales"). The terminology in *Mitchell* is not limited to "conditional sales," and the Court later used the term "conditions" more broadly, including in discussions of *Mitchell*. *See Motion Picture Patents*, 243 U.S. at 506, 514–15; *A.B. Dick*, 224 U.S. at 12, 16, 19; *In re Paper-Bag Cases*, 105 U.S. 766, 770–71 (1882). In any event, the language of *Mitchell* is just one part of the analysis, of which *General Talking Pictures* is the most significant precedent.

that [the Transformer Company] had no license to make such a sale." *Id.* When the patentees sued General Talking Pictures (the buyer) for infringement, the Supreme Court, based on *Mitchell*, affirmed the judgment of infringement. *Id.* at 181–82.

The Court came to the same conclusion when it reconsidered the question on rehearing. It said: "Any use beyond the valid terms of a license is, of course, an infringement of a patent." 305 U.S. at 126. Moreover, "[t]hat a restrictive license is legal seems clear." *Id.* at 127 (citing *Mitchell*). The use restriction was a lawful one, the Court observed, and "[a]s the restriction was legal and the amplifiers were made and sold outside the scope of the license, the effect is precisely the same as if no license whatsoever had been granted to Transformer Company." *Id.* General Talking Pictures, knowing of the restriction, was "liable because it ha[d] used the invention without license to do so." *Id.* Thus, General Talking Pictures was held to be liable for patent infringement. It was not held liable for breach of contract; indeed, it had no contractual relationship with the patentees.

b. The Supreme Court thus held that a patentee can preserve its patent rights by authorizing a manufacturing licensee to make and sell a patented article under an otherwise-proper restriction, including a restriction on the buyer's post-purchase use. When the buyer, knowing of the restriction at the time of purchase, subsequently uses the article in violation of the restriction, the buyer is infringing.

To distinguish the present patentee-sale situation, the government must contend that a patentee cannot preserve its patent rights against uses of a patented article contrary to known use restrictions if, instead of licensing someone else to make and sell

the article, it chooses to make and sell the article itself. That contention would draw a sharp line between practicing-entity patentees (those who themselves make and sell the articles at issue) and non-practicing-entity patentees (those who do not). Non-practicing-entities would have greater power to maintain their patent rights than practicing entities.

The government points to no basis in the policy of the patent statute for making that distinction. Nothing in the patent statute suggests that patentees should have to contract out their manufacture and sale of patented articles to preserve their § 271 rights. The essential tradeoff of the patent system—to provide a market-based reward in exchange for disclosure—is equally applicable whether the patentee sells or licenses another to make and sell. The Federal Trade Commission made the fundamental point as follows: "A patentee can obtain a financial reward for its patent by producing a product that incorporates the invention or by transferring the technology through a patent license or sale to a manufacturer who develops and produces a product. The market reward earned by the patentee in either case will depend upon the extent to which consumers prefer the patented invention over alternatives and prior technology, which helps determine the invention's economic value." *See* Fed. Trade Comm'n, The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition 139 (2011) (footnote attached to "market reward" states: "The 'market reward' defined here is the amount the patentee could have earned by either selling a patented product or licensing the patented technology in the absence of infringement."). The distinction urged on us appears to be unjustifiably formalistic, not founded in rele-

vant economic substance. *Mallinckrodt*, 976 F.2d at 705.

The proposed distinction would also introduce practical problems. Where would the line be drawn along the spectrum from original patentees to assignees (*e.g.*, regional assignees) to exclusive licensees (exclusivity being possible as to some but not all of the § 154 rights) to nonexclusive licensees? As we already have noted, patent law makes those distinctions for purposes of identifying who may bring infringement actions, but the distinctions are sometimes difficult to pin down and dependent on detailed inquiries into contractual provisions. When purchasing a patented article from a particular seller under specified restrictions that are not independently improper, how is the buyer to know where the seller falls along the spectrum—and, hence, whether the buyer may ignore the restrictions without fear of patent infringement?

c. The government advances a doctrinal defense of the patentee-sale/licensee-sale distinction on which it rests its challenge to *Mallinckrodt*. The government begins its argument on the *Mallinckrodt* issue by first noting the absence of statutory text supporting its position and then turning, in the next sentence, to a passage from *Bloomer* v. *McQuewan* to supply a foundation for its argument. U.S. Br. 5. It asserts that "[t]his distinction stems from the fact that licensees exercise a portion of the patentee's rights." *Id.* at 8 (citing *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) at 549–50). But that key distinction is wrong as a matter of basic patent law, misreads *Bloomer* v. *McQuewan*, and cannot distinguish *General Talking Pictures* from this case. A mere nonexclusive licensee, as in *General Talking Pictures*,

possesses no portion of the rights granted by Congress in the patent.

Patent rights are only rights to exclude, not rights to practice. *See* 5 Chisum § 16.02[1]. Among the "clearly established principles" of patent law, as the Supreme Court described them in *Crown Die & Tool Co.*, are that "the government did not confer on the patentee the right himself to make, use or vend his own invention" and "in its essence all that the government conferred by the patent was the right to exclude others from making, using or vending his invention." 261 U.S. at 35; *see Bauer*, 229 U.S. at 10 ("The right to make, use, and sell an invented article is not derived from the patent law. . . . The [patent statute] secured to the inventor the *exclusive* right to make, use, and vend the thing patented, and consequently to prevent others from exercising like privileges without the consent of the patentee."); *Continental Paper Bag*, 210 U.S. at 425; *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) at 549 ("The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent."); *Western Elec. Co.* v. *Pacent Reproducer Corp.*, 42 F.2d 116, 118 (2d Cir. 1930); *see also Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) ("long-settled view that the essence of a patent grant is the right to exclude others from profiting by the patented invention"). It is for that reason, for example, that a patentee may be prevented from practicing its own patent by another's patent. *See Cantrell*, 117 U.S. at 694; *Blake*, 94 U.S. at 733; *Smith*, 88 U.S. (21 Wall.) at 118–19.

A patentee exercises its congressionally granted rights only when it invokes its power to exclude oth-

ers, not when it sells its product. Similarly, the congressionally granted right to exclude may be viewed as being shared by certain *exclusive* licensees, who, in appropriate circumstances (*e.g.*, with joinder of the patent owner), may bring infringement actions against others to enforce exclusivity. *See Independent Wireless*, 269 U.S. at 464–69 (discussing cases); 8 Chisum § 21.03[2]. But an exclusive licensee, in merely selling (or making, using, etc.) a patented article, is not exercising any power conferred by the patent statute. That is *a fortiori* true of a non-exclusive licensee, like the licensee in *General Talking Pictures*, which has no exclusivity protections at all. Thus, although the government's assertion that "licensees stand in patentees' shoes" in sharing certain patent-granted rights is true in a significant respect as to *exclusive* licensees, U.S. Br. 8, it is not true as to non-exclusive licensees—like the licensee in *General Talking Pictures*. Accordingly, a patentee's ability to preserve its patent rights (rights to exclude) by arranging for sales to be made by a non-exclusive licensee, like the Transformer Company, cannot rest on a premise that "licensees exercise a portion of the patentee's rights." U.S. Br. 8.

Bloomer v. *McQuewan*, on which the government relies from the outset of its argument, U.S. Br. 5, does not say otherwise. The government states that in *Bloomer* v. *McQuewan* "the Court explained that a purchaser of a patented article 'stands on different ground' than *one who obtains a license* under the patent," because the latter " 'obtains a share in the monopoly . . . derived from, and exercised under' the patent." *Id.* (emphasis added) (quoting *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) at 549). But the Court did not say that about simply "one who obtains a license," like the licensee in *General Talking Pictures*.

What the Court said in *Bloomer* v. *McQuewan*—immediately after the sentences stating that the patent gives the patentee only "the right to exclude"—is that "when [the patentee] sells the *exclusive* privilege of making or vending [the invention] for use in a particular place," the privilege ends with the patent that creates it. 55 U.S. (14 How.) at 549 (emphasis added). That statement is about the *exclusivity* right, *i.e.*, the right to exclude others, which an assignee or exclusive licensee obtains in whole or in part. By its terms, and consistent with the just-stated definition of the limited nature of the patent franchise, it says nothing about a non-exclusive licensee obtaining a share in the monopoly. The Court then contrasted, as "stand[ing] on different ground," one who simply buys a patented device, which "[t]he inventor might lawfully sell to him, whether he had a patent or not, if no other patentee stood in his way." *Id.* The buyer, as mere owner and user of the device, lacks any patent-granted right to exclude, *i.e.*, "exercises no rights created by the act of Congress," so whatever rights it has do not end with the patent's expiration. *Id.* The distinction was not between a sale from a patentee and a sale from a bare (non-exclusive) licensee. In short, *General Talking Pictures* cannot be distinguished on the doctrinal basis the government invokes.

d. No Supreme Court decision compels adoption of the distinction the government urges. As Impression noted at oral argument, it is undisputed that no Supreme Court decision has involved a single-use/no-resale restriction on a patentee's sale and found the restriction insufficient to preserve the patentee's infringement rights against a buyer engaging in the forbidden reuse or resale. More generally, no Supreme Court precedent denies a patentee the ability

to preserve its § 271 rights, by a clear communication of an otherwise-permissible restriction, when it sells the patented article itself, just as the patentee may do, under the *General Talking Pictures* principle, when contracting out the making and selling of the patented article.

We have already noted the limitations on what was presented and decided in the *Bloomer* cases (rejecting implied temporal use restrictions) and *Adams* (rejecting implied geographic use restrictions). In 1881, the Supreme Court summarized the relevant law: "The right of the owner of a patented machine, *without any conditions attached to his ownership*, to continue the use of his machine during an extended term of the patent, is well settled." *In re Paper-Bag Cases*, 105 U.S. at 770–71 (emphasis added) (citing *Bloomer* v. *McQuewan*, *Mitchell*, *Adams*, and *Chaffee* v. *Boston Belting Co.*, 63 U.S. (22 How.) 217 (1859)). In so stating the law, in terms that tied exhaustion to the absence of conditions, the *Paper-Bag Cases* Court cited at least one case, *Adams*, involving a sale made by an assignee (a patentee under patent law).[10]

The Court in *Hobbie* v. *Jennison*, 149 U.S. 355 (1893), described and followed the holding of *Adams* that, when an assignee sold machines, "there was no restriction on their use *to be implied*, for the benefit of the patentee or his assignees or licensees." 149 U.S. at 362 (emphasis added). The Court held that an unrestricted sale of pipe in Michigan by the Mich-

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[10] In *Chaffee*, which involved Goodyear's rubber patents, the Supreme Court rejected the defendants' invocation of the *Bloomer* principle, again in a term-extension context, explaining that there was no evidence that the defendants had ever received any authority to practice the patented invention. 63 U.S. (22 How.) at 222–24.

igan assignee (Jennison's firm), with full rights to sell it, allowed the buyer to use it in Connecticut free of the patent rights belonging to the Connecticut assignee (Hobbie).

In its 1895 decision in *Keeler*, the Court applied its existing precedents, especially *Adams* and *Hobbie*. The Massachusetts assignee (Standard Folding-Bed) sued Keeler when he bought patented beds from the Michigan assignee, subject to no restrictions, and brought them to Massachusetts for sale. 157 U.S. at 660 (stating facts before opinion starts). The Court noted that in *Adams* the patented articles "were sold to [Burke] without condition or restriction," *id.* at 663, and it concluded that *Adams* "was applicable," *id.* at 665. The Court also quoted as defining the law (in this patentee-sale case) the passage set out above from *Mitchell* (a licensee-sale case). *Id.* at 663. In any event, with no restriction on the sale present, the Court followed *Adams*' refusal to find one implied by the patent law.

It was against that background that the Court then noted: "Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us," but "such a question would arise as a question of contract, and not as one under the *inherent* meaning and effect of the patent laws." *Id.* at 666 (emphasis added). That language lends itself to use in the government's argument that sale restrictions never preserve *patent* rights, but give only contract rights. But even in *Keeler* the language does not compel that reading, and the later decisional law—most importantly, *General Talking Pictures*—undermines the contract-only interpretation.

Thus, in *Keeler* itself, the word "inherent" naturally ties the language to the modest point based on *Adams* that actually decided *Keeler*: with no contract restriction as part of the sale, an implied one cannot be found in patent law itself. That says nothing about the irrelevance of an actual contract restriction to preservation of patent rights. Moreover, in the licensee-sale context, *General Talking Pictures* establishes that contract restrictions can indeed preserve a patentee's infringement rights and are not merely enforceable under contract law: General Talking Pictures, which had no contract with the patentees, was held liable for patent infringement, not breach of any contract with the patentees. Notably, then, in *Quanta*, a licensee-sale case like *General Talking Pictures*, the Court quoted the language from *Keeler* after discussing *General Talking Pictures* (without a hint of disapproval) and concluding that, as in *Keeler*, *Adams*, and *Hobbie*, there simply was no patentee-imposed contractual restriction applicable to the sales at issue. 553 U.S. at 637 n.7. And in the present case, as in *General Talking Pictures*, there is no reason to think that the patentee has a contract remedy available as a substitute for patent infringement: as far as the record before us shows, Lexmark has no contractual relationship with Impression.

In *United States* v. *General Electric Co.*, 272 U.S. 476 (1926), the Supreme Court rejected the government's antitrust challenge to (among other things) General Electric's licensing of Westinghouse to make and sell patented lamps under terms controlling resale prices. *See Fed. Trade Comm'n* v. *Actavis, Inc.*, 133 S. Ct. 2223, 2232 (2013) (describing *General Electric*). In making a general point about patentee sales (not involved in the case), the Court said: "It is well settled, as already said, that where a patentee

makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights." 272 U.S. at 489 (citing cases). We read that language to deem "settled" only what was settled in the cited precedents—a patentee's sales *without restrictions* exhaust patent rights in the item sold. The cited cases are *Adams*, *Bloomer* v. *McQuewan*, *Hobbie*, *Keeler*, and *Mitchell*. They do not go beyond that proposition.

The prominent exhaustion decisions from the 1910s do not make the patentee-sale/licensee-sale distinction urged by the government here. After *A.B. Dick* adopted a broad principle that preserved a patentee's patent-law rights against restriction-violating sale, use, etc., even if the restrictions were otherwise unlawful—in *A.B. Dick*, a tie-in requiring purchase of unpatented products—the Supreme Court repudiated *A.B. Dick*'s broad principle and held particular restrictions improper and therefore not effective at preserving patent rights against actions contrary to those restrictions. It did so as to tie-ins in *Motion Picture Patents*, overruling *A.B. Dick* and relying on the 1914 Clayton Act, 38 Stat. 730. *See* 243 U.S. at 517. And it did so as to resale price maintenance in *Bauer*, *Straus*, and finally *Boston Store*, relying on the judicially adopted per se antitrust condemnation of that practice in *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911), *overruled by Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877 (2007). *See Bauer*, 229 U.S. at 12; *Straus*, 243 U.S. at 498; *Boston Store*, 246 U.S. at 21. But the Court did not rule that *all* restrictions on a patentee's sale were ineffective to preserve the patentee's patent-law rights. Instead, it called for an inquiry—in accord with what

Mallinckrodt later said—into whether a patentee's restrictions were otherwise improper, as by "extend[ing] the scope of its patent monopoly." *Motion Picture Patents*, 243 U.S. at 516. And the Court did not adopt the line the government suggests between patentee sales and licensee sales.

In its 1942 decision in *Univis*, the Supreme Court rejected a patent-based defense to the government's antitrust challenge to resale-price-maintenance restrictions in the licensing and selling of eyeglass lenses. The Court said that it had two questions before it: first, whether the restrictions were "excluded by the patent monopoly from the operation of the Sherman Act," *i.e.*, whether *if* the restrictions were illegal under the Sherman Act, they were saved by the patent law; and second, whether the restrictions were illegal under the Sherman Act. 316 U.S. at 243. The Court said no on the first question, *id.* at 249–52, and yes on the second, *id.* at 252–54.

The second answer (regarding the substance of antitrust law) is immaterial here, and the first answer is in accord with *Mallinckrodt*'s ruling—which expressly recognizes that, as *Univis* held, restrictions that are otherwise unlawful do not preserve patent rights. Moreover, although some language in *Univis*, like language in other decisions in the area, can be taken out of context and read as going beyond the specific restrictions involved, *id.* at 249–51, the most the Court ruled, even as to patent law all by itself, was that a vertical price-control restriction was ineffective to preserve patent rights after sales of articles embodying the patents. While *Univis* is controlling on what it decided on the issues before it, we do not think it appropriate to give broad effect to language in *Univis*, taken out of context, to support an other-

wise-unjustified conclusion here on a question not faced there. And that is particularly so today, given that the *Univis* opinion relied in part on strongly restrictive patent-misuse decisions that were repudiated by Congress after *Univis* was decided.[11]

Most pointedly for present purposes, *Univis* does not support the distinction between patentee sales and licensee sales the government urges in this case. The *Univis* case was decided just four years after *General Talking Pictures*, which confirmed that a patentee *may* preserve its patent rights by imposing otherwise-lawful restrictions on sales by its manufacturing licensees. Yet *Univis* says nothing to limit that prominent, recent ruling. Moreover, as we have already noted, *Univis* is explicit that it made no difference to the Court's analysis whether the patentee (Univis Corporation) or the manufacturing licensee (Univis Lens Company) was doing the selling: the Court stated that the two companies "may for the purposes of this suit be treated as though they were a single corporation." 316 U.S. at 243. The Court also stated its point about the particular sale as equally

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[11] *Univis* supports some of its broader statements about loss of patent rights with citations to some of the highly restrictive patent-misuse decisions—*e.g.*, *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458 (1938); *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488 (1942); *B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942)—that were soon to culminate in the *Mercoid* decisions, *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944); *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944). In the 1952 Patent Act, Congress, by adopting § 271(d), sharply limited the patent-misuse doctrine in response to that line of authority. *See Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 204–15 (1980); Rich, *supra*, at 21. In 1988, Congress limited the patent-misuse doctrine still further. *See Illinois Tool Works*, 547 U.S. at 41–43.

applicable to a "[s]ale of a lens blank *by the patentee or by his licensee*." *Id.* at 249 (emphasis added).[12]

For the foregoing reasons, we think that the best lesson to draw from the Supreme Court's precedents, as applied to the question before us, is that a patentee may preserve its patent rights by otherwise-proper restrictions when it makes and sells patented articles itself and not only when it contracts out manufacturing and sales.

3

We see no basis for a different conclusion in Lord Coke's description in 1628 of a British common-law principle, as quoted in *Kirtsaeng*, 133 S. Ct. at 1363. Lord Coke described what British courts, in the absence of an overriding legislative prescription, would treat as an impermissible anti-alienation restriction on a seller's disposition of " 'his whole interest' " in a chattel. *Id.* Lord Coke's formulation was part of the judicial formulation of background law for personal property generally, and it neither addressed possible differences among particular kinds of personal property nor suggested that a judicial rule would override specific legislative grants. Lord Coke's formulation was a pertinent reference point in *Kirtsaeng*, because, as we have noted, the copyright statute, 17 U.S.C. § 109(a), states a rule that itself overrides the otherwise-applicable statutory bars on infringement and importation and grants of exclusive rights. In stating one common-law jurisdiction's general judicial policy at one time toward anti-alienation restrictions, Lord Coke's description confirmed that the

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[12] The government also cites *Aro II*, 377 U.S. at 497, but that case involved no issue about restrictions in the terms of authorized sales.

otherwise-supported reading of § 109(a) fit a legal tradition.

Lord Coke's quote does not purport to address the effect of a legislative prescription of broad rights to control sale and use.[13] That is what is present in the Patent Act, but not the copyright law. Sections 154(a) and 271(a) legislatively establish a patentee's rights over sale and use, without subservience to a superseding grant of rights to one who owns a particular article. They grant those rights separately as to making, selling, using, etc., thus recognizing different sticks in the bundle of rights; they grant them without an exception keyed to the patentee's prior ownership of a particular article embodying the invention; and they grant them unless, as relevant here, the patentee confers "authority." Lord Coke's quote does not address the Patent Act situation or suggest that federal courts may treat a denial of authority as a conferral of authority.

Different policy choices can readily be made and justified in this area, even as to background rules applicable to personal property generally. Some of the numerous, distinct common-law jurisdictions, including Lord Coke's, have departed at various times from the background rule expressed by Lord Coke. *See De Mattos* v. *Gibson*, (1859) 45 Eng. Rep. 108 (Ch. App.); *Waring* v. *WDAS Broad. Station, Inc.*,

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[13] Lord Coke's 1628 statement does not address the Statute of Monopolies, enacted just a few years earlier, to which American patent law has often been traced. *See Pennock* v. *Dialogue*, 27 U.S. (2 Pet.) 1, 18, 20 (1829); *J.M. Robinson & Co.* v. *Belt*, 187 U.S. 41, 47 (1902). Lord Coke did discuss the Statute of Monopolies elsewhere. *See Pennock*, 27 U.S. (2 Pet.) at 20 (citing Edward Coke, Third Part of the Institutes of the Laws of England 184 (1644)).

194 A. 631, 637–38 (Pa. 1937); *Metro. Opera Ass'n* v. *Wagner-Nichols Recorder Corp.*, 101 N.Y.S.2d 483, 494–95 (N.Y. Sup. Ct. 1950), *aff'd*, 279 A.D. 632 (N.Y. App. Div. 1951); *Pratte* v. *Balatsos*, 113 A.2d 492, 494–95 (N.H. 1955); *Nadell & Co.* v. *Grasso*, 346 P.2d 505, 509–10 (Cal. 1959); *Clairol Inc.* v. *Cosmetics Plus*, 325 A.2d 505, 508 (N.J. Sup. Ct. 1974); Zechariah Chafee, Jr., *Equitable Servitudes on Chattels*, 41 Harv. L. Rev. 945, 1007–13 (1928); Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250, 1254–56 (1956); Glen O. Robinson, *Personal Property Servitudes*, 71 U. Chi. L. Rev. 1449, 1455–60 (2004). In 1918, then-Dean Harlan Fiske Stone wrote: "The tendency in the United States has been to apply the doctrine of restrictive agreements to personal property when not regarded as an unlawful restraint of trade or in violation of public policy." *The Equitable Rights and Liabilities of Strangers to a Contract*, 18 Colum. L. Rev. 291, 310 (1918).

In any event, and more specifically, whatever considerations might go into a jurisdiction's choice as to the background rule for personal property in general, lawmaking authorities may reasonably make different choices for particular kinds of property. Notably, as to intellectual property in its various forms, Congress, implementing the Constitution, has long deemed it important to incentivize creation and disclosure through grants to the creator of rights to exclude others for a time, the duration and scope based on features of the particular kind of intellectual property (*e.g.*, patent terms are much shorter than copyright terms). The Patent Act expressly does so regarding patent rights, specifically giving separate rights to exclude others from making, using, selling, etc. That overriding legislative prescription removes

the patented-article sale from the scope of Lord Coke's 1628 description of his country's general judicially fashioned property law, as British tribunals recognized long ago. *See A.B. Dick*, 224 U.S. at 42–43 (quoting the judicial committee of the Privy Council, speaking through Lord Shaw in 1911: "the general doctrine of absolute freedom of disposal of chattels of an ordinary kind is, in the case of patented chattels, subject to the restriction that the person purchasing them, and in the knowledge of the conditions attached by the patentee, which knowledge is clearly brought home to himself at the time of sale, shall be bound by that knowledge and accept the situation of ownership subject to the limitations. These limitations are merely the respect paid and the effect given to those conditions of transfer of the patented article which the law, *laid down by statute*, gave the original patentee a power to impose.") (quoting *Nat'l Phonograph Co.* v. *Menck*, [[1911] A.C. 336, 349 (P.C. 1911 appeal taken from Aus.)]); *Incandescent Gas Co.* v. *Cantelo*, [1895] 12 R.P.C. 262, 264 (Eng.).

In short, notwithstanding Lord Coke's description of English general personal-property judge-made law, the patent-specific statutory analysis must govern here.

4

Finally, following the analytical method of *Kirtsaeng*, we consider what we can reliably gauge about the likely real-world consequences of one answer or another to the exhaustion question presented here. As indicated at the front of this opinion, we have received numerous amicus briefs making competing arguments, with varying degrees of reliable factual support, for the effect of *Mallinckrodt* on their interests or the interests they promote. We

cannot assess those contentions and make policy choices in the way Congress can. We can say only that the amicus presentations give us no reason to depart from the application of § 271 we derive from the statute and precedent.

In particular, we see no basis for predicting the extreme, lop-sided impacts the Court found plausible in *Kirtsaeng* in different circumstances. *Mallinckrodt* has been the governing case law since 1992 and has been reiterated in subsequent precedent. And yet we have been given no reliable demonstration of widespread problems not being solved in the marketplace. Given *General Talking Pictures*, the only question is about patentees' ability to do for their own sales what they already can do by contracting out their manufacturing and sales. Regarding the specific scenario we are addressing today—in which the patentee has sought to preserve its patent rights by conditioning its first sale on a single-use/no-resale restriction of which the accused infringer had adequate notice at the time of purchase—we have been given no proof of a significant problem with enforcing patent rights.

At the same time, the conduct challenged here can have benefits. Lexmark's Return Program provides customers an immediate up-front benefit: a choice between two options, one offering them a lower price in exchange for the single-use/no-resale limitation. And a company in Lexmark's position could have a plausible legitimate interest in not having strangers modify its products and introduce them into the market with the quality of modifications (including ink refills) not subject to Lexmark's control: lower quality of remanufactured cartridges could harm Lexmark's reputation. *See* Chafee, 41 Harv. L. Rev. at 946–47. A medical supplier in Mallinckrodt's

position plausibly may have similar reason to believe that reuse, when not under its own control, carries a significant risk of poor or even medically harmful performance, to the detriment of its customers and its own reputation. Such interests are hardly unrelated to the interests protected by the patent law—the interests both of those who benefit from inventions and of those who make risky investments to arrive at and commercialize inventions. *See* Robinson, 71 U. Chi. L. Rev. at 1480–1515 (surveying reasons for restrictions, particularly in intellectual-property area).

We do not have a record on such interests in this case, as Impression has not claimed that the restrictions at issue violate antitrust, patent-misuse, or similar constraints. And it is not our function to assess the strength of such interests against those which might pull the other way. Nor can we fairly assume the illegitimacy of the conduct here. Such an assumption would run counter to the large-scale changes in antitrust law and patent-misuse law, especially over the last four decades, that have displaced the strict condemnation of various vertical restrictions that characterized both areas of law in the first half of the twentieth century.

Thus, the Supreme Court broadly held that nonprice vertical restraints are to be judged by a rule of reason. *See Continental T.V., Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36, 57–59 (1977), *overruling United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967). The Court abandoned its "strong disapproval of tying arrangements" by insisting on market power in the tying product as a precondition to condemnation. *See Illinois Tool Works*, 547 U.S. at 35–38; *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2 (1984). It overturned both the per se ban on vertical

agreements setting maximum resale prices, *State Oil Co.* v. *Khan*, 522 U.S. 3, 7 (1997), *overruling Albrecht* v. *Herald Co.*, 390 U.S. 145 (1968), and the per se ban on vertical agreements setting minimum resale prices, *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 900–01 (2007), *overruling Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911).

The absence of a general basis for finding market harm from vertical restrictions is recognized specifically in the patent area, too. Field-of-use restrictions in patent licenses have long been common, as *Mallinckrodt* points out and *General Talking Pictures* shows. In 1988, building on an initial relaxation of patent-misuse standards in 1952, Congress made clear that tying arrangements involving a nonpatented product do not constitute patent misuse where the patentee lacks market power. 35 U.S.C. § 271(d)(5). The Supreme Court, citing that determination, subsequently overturned its own longstanding antitrust presumption that patent (and copyright) owners have market power. *Illinois Tool Works*, 547 U.S. at 41–42. And the two federal antitrust agencies have recognized that restrictions in intellectual-property licenses can be procompetitive. *See* U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property § 2.3 (1995) ("Field-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible.").

For those reasons, we see no basis for departing from the legal analysis set out above. A patentee already may preserve its patent rights against downstream buyers (with notice) through otherwise-lawful

restrictions, by licensing others to make and sell its patented articles. We conclude that the law does not forbid the patentee to do the same when making and selling the articles itself.

III

The second question presented to us is whether Lexmark's sales of its cartridges abroad conferred authority on its buyers, and derivatively on Impression, to import the cartridges into, and sell and use them in, the United States, which would be infringing acts in the absence of authorization. The question was decided by the district court, and is presented here, on the premise that Lexmark made the foreign sales without communicating a reservation of U.S. patent rights. And the question is presented only as an exhaustion question, because Impression did not press any implied-license defense, despite the fact that *Quanta* made clear that the doctrines are distinct.

The absence of an implied-license defense in this case sharpens the definition of the issue presented. There is no doubt that a U.S. patentee, when selling a U.S.-patented article abroad, could give the buyer permission, expressly or by implication from the circumstances, to import the purchased article into the United States and sell and use it here. Such a license would make those acts non-infringing. The question for decision is whether, if there is no proof of any such license (express or implied), there is nonetheless a legal rule that such a foreign sale confers authority on the overseas buyer to import the patented article into the United States and sell and use it here. If there is such a legal rule of authorization, the next question is whether the authorization is conclusive, effective even in the face of the U.S. pa-

tentee's reservation of U.S. rights, or only presumptive, with the U.S. patentee able to reserve its U.S. rights if it can demonstrate with adequate certainty that it has taken the steps needed to do so.

We conclude, as we did in *Jazz Photo*, that there is no legal rule that U.S. rights are waived, either conclusively or presumptively, simply by virtue of a foreign sale, either made or authorized by a U.S. patentee. The government, we note, agrees that a conclusive-exhaustion rule should be rejected but argues for a presumptive-exhaustion rule regarding a U.S. patentee's foreign sales. In the government's view, a U.S. patentee can reserve its U.S. rights when selling abroad (but not if selling domestically, under the government's view that *Mallinckrodt* is wrong). We conclude that neither a conclusive- nor a presumptive-exhaustion rule is legally justified.

A

This court's 2001 decision in *Jazz Photo* reviewed the International Trade Commission's finding that Jazz Photo (and others) infringed patents of Fuji Photo Film by importing refurbished disposable cameras originally sold by or with the authorization of Fuji Photo. 264 F.3d 1094, 1098. Two groups of cameras sold by or with the authorization of Fuji Photo were at issue: those sold initially in the United States, refurbished abroad, and imported back into the United States; and those initially sold abroad, refurbished abroad, and imported into the United States. This court drew different conclusions about infringement regarding those two groups of imported cameras.

Disagreeing with the Commission on the central issue in the case, the court held that a specifically described set of refurbishment changes (involving in-

sertion of new film into the used casings) were mere repairs, not reconstructions that amounted to creation of new articles. *Id.* at 1102–07. Therefore, the court ruled, for the "used cameras whose first sale was in the United States with the patentee's authorization," and that were subjected to only those changes (with disclosure to the Commission), Jazz Photo's importations were not infringing: repair maintained the identity of the article initially sold, and the domestic sale exhausted the patentee's rights in the article sold (but not in newly created articles). *Id.* at 1098–99, 1102–05 (discussing, for example, *Aro I*, 365 U.S. at 346); *see Bowman*, 133 S. Ct. at 1766. As to those used cameras, the court reversed the Commission. 264 F.3d at 1099.

The court held, however, that a different result was required for any of the imported cameras that previously had been "*sold only overseas*," even if the changes in them amounted only to repair. *Id.* at 1105 (emphasis added). Relying on *Boesch* v. *Graff*, 133 U.S. 697, 701–03 (1890), the court ruled that "United States patent rights are not exhausted by products of foreign provenance," *i.e.*, products previously sold only abroad. 264 F.3d at 1105. Thus, the court's non-infringement ruling (and reversal of the Commission) applied only to used cameras "for which the United States patent right has been exhausted by first sale in the United States" and whose refurbishing was limited as described. *Id.* The imported cameras not previously sold in the United States, in contrast, "are not immunized from infringement of United States patents by the nature of their refurbishment." *Id.* There is no suggestion that Jazz Photo argued that Fuji Photo had expressly or impliedly licensed importation in making or authorizing the foreign sales, and the court said nothing to foreclose

such a defense to infringement. Accordingly, as to cameras "whose prior sale was not in the United States," the court affirmed the Commission's infringement finding and remedies against Jazz Photo. *Id.* at 1111.

The court followed *Jazz Photo* in *Fuji Photo Film Co., Ltd.* v. *Jazz Photo Corp.*, 394 F.3d 1368, 1370 (Fed. Cir. 2005), which affirmed a district court's judgment of infringement by Jazz Photo (and others) in favor of Fuji Photo in litigation involving the same dispute as *Jazz Photo*. This court rejected Jazz Photo's argument for exhaustion as to first sales made abroad. The court in *Fuji Photo* explained that in *Jazz Photo* "this court expressly limited first sales under the exhaustion doctrine to those occurring within the United States." *Id.* at 1376. Accordingly, exhaustion of U.S. rights is not triggered by "[t]he patentee's authorization of an international first sale." *Id.* In *Fuji Photo*, as in *Jazz Photo*, the court did not foreclose any argument about express or implied licenses conferred in particular foreign sales.

In short, this court has held since 2001 that the foreign sale of a U.S.-patented article, when the sale is either made or authorized by the U.S. patentee, does not, standing alone, confer on the buyer "authority" to import the item into the United States or to sell and use it here, and so does not save those acts from being infringing under § 271(a). *See Ninestar Tech. Co.* v. *Int'l Trade Comm'n*, 667 F.3d 1373, 1378 (Fed. Cir. 2012).[14] The court has not cur-

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[14] In *Ninestar*, this court rejected the argument that *Quanta*, 553 U.S. at 632 n.6, upset *Jazz Photo*. *Quanta*'s footnote 6 does not address or decide whether a foreign sale can trigger exhaustion. It makes a different point, stated in the textual assertion the footnote supports: "LGE has suggested no reasonable use

tailed the ability of an accused infringer to show that the patentee conferred such authority by words or implications. Exhaustion cannot rest on a foreign first sale, but an express or implied license might be found based on the circumstances of particular foreign sales.

B

The Supreme Court's decision in *Kirtsaeng* does not undermine the no-exhaustion conclusion of *Jazz Photo*. In *Kirtsaeng*, the Court interpreted § 109(a) of the Copyright Act, which states that "the owner of a particular copy . . . lawfully made under this title . . . is entitled, without the authority of the copyright

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for the Intel Products other than incorporating them into computer systems that practice the LGE Patents." *Id.* at 632. That assertion applies the Court's standard for when an article not covered by a patent nevertheless embodies the patent. Footnote 6 responds to footnote 10 in LGE's brief, Brief for Respondent 21–22 n.10, *Quanta* (No. 06-937), 2007 WL 4244683, which does not rely on a foreign sale of the Intel Products, but argues that the (first-sale) Intel Products do not embody the patents because they have substantial non-infringing uses, namely, wholly foreign making, selling, and using of computers covered by the patents. *Quanta*'s footnote 6 responds that such foreign acts with those computers "would still be *practicing* the patent, even if not infringing it," which is what counts for the "embody" inquiry. 553 U.S. at 632 n.6.

Neither in footnote 6 nor elsewhere does *Quanta* refer to LGE's final footnote, Brief for Respondent 53 n.19, in which LGE cited *Boesch*, suggested that Intel's sales *might* have been made abroad, and said that this was an open question for remand. Quanta replied that LGE had waived any foreign-sale-location contention, so that reversal, not remand, was required. Reply Brief for Petitioners 3 n.2, *Quanta* (No. 06-937), 2007 WL 4613423. The Court evidently agreed with Quanta. Without discussing *Boesch* or any issue about foreign-sale exhaustion law, the Court reversed, holding that "LGE can no longer assert its patent rights against Quanta." 553 U.S. at 638.

owner, to sell or otherwise dispose of the possession of that copy . . . ." 17 U.S.C. § 109(a). The Court held that § 109(a)'s guarantee is not limited to copies manufactured in the United States, but applies regardless of the place of manufacture, as long as the maker of the copies had permission from the copyright owner to make them. *Kirtsaeng*, 133 S. Ct. at 1355–71.

For various reasons, that ruling does not answer the question presented under the Patent Act. *Kirtsaeng* says nothing about patent law; and it does not address, even in the context of copyright law, the exhaustion question presented by the Patent Act. Whether a sale constitutes a grant to a buyer of (conclusive or presumptive) "authority" to engage in otherwise-prohibited acts of importation, sale, and use is the question here. It is not the question presented by the Copyright Act. That Act contains no right to exclude anyone from "use," and § 109(a) of the Act expressly overrides the copyright holder's rights to exclude from importing or selling copies, permitting acts "without the authority" of the rights owner—in circumstances that undisputedly have nothing to do with the place of sale. The Court in *Kirtsaeng* merely interpreted § 109(a) and resolved the dispute about whether the place of manufacture matters under § 109(a), holding—for a number of reasons "taken together"—that it does not. 133 S. Ct. at 1358, 1371. The *Kirtsaeng* question thus is several steps removed from the question presented under the Patent Act, which requires a quite different analysis.

To elaborate: In *Kirtsaeng*, the Supreme Court did not advert to the foreign-exhaustion issue under patent law. Nor did it cite, even to distinguish, its own leading case on exhaustion and foreign sales in the patent area, namely, *Boesch*—which has no coun-

terpart in the copyright area. More generally, the Court nowhere relied on the wealth of exhaustion cases in the patent area. The absence of such references to patent law, even at a general level, reinforces the need for a distinct patent-law analysis.

The Court has long recognized the distinctness of the copyright and patent regimes and observed that particular questions require separate analysis for each body of law. For example, the Court has noted that the patent right is broader in scope than the copyright right in at least one important respect: the patent statute gives a right to exclude others from "use," whereas the copyright statute does not. *Bauer*, 229 U.S. at 13–14. In a decision relied on in *Kirtsaeng*, 133 S. Ct. at 1363, the Court stated more generally that copyright-law conclusions and patent-law conclusions do not necessarily align, so that a conclusion about copyright law does not automatically carry over to patent law. *Bobbs-Merrill*, 210 U.S. at 345–46. In *Sony Corp. of America* v. *Universal City Studios, Inc.*, the Court, noting that patent and copyright law "are not identical twins," required "caution . . . in applying doctrine formulated in one area to the other." 464 U.S. 417, 439 n.19 (1984). In *Eldred* v. *Ashcroft*, the Court explained that "patents and copyrights do not entail the same exchange." 537 U.S. 186, 216 (2003).

The answer to a particular question therefore requires analysis of the specifics of the relevant statute. The Court in *Kirtsaeng* conducted just such an analysis for the copyright-law question before it. It analyzed a copyright-specific text, namely, § 109(a), and stressed that it was determining "the best reading of *§ 109(a)*." 133 S. Ct. at 1370 (emphasis in original). *See id.* at 1371 ("we do no more here than try to determine what decision Congress has taken"); *id.* at

1357 ("We must decide whether the words 'lawfully made under this title' restrict the scope of § 109(a)'s 'first sale' doctrine geographically."). And the structure of the Court's analysis confirms the primacy of the statutory text: The Court began its analysis with an extensive consideration of the text of § 109(a). 133 S. Ct. at 1358–60. It concluded that "[t]he language of § 109(a) says nothing about geography"; reading "made under this title" to mean made with the rights holder's permission, *not* to mean made in the United States, "is simple, . . . promotes a traditional copyright objective (combatting piracy), and . . . makes word-by-word linguistic sense"; while the made-in-the-United-States interpretation "bristles with linguistic difficulties." 133 S. Ct. at 1358. The Court then found various contextual, historical, and practical considerations to support that textual conclusion. *Id.* at 1358–62.

The text construed in *Kirtsaeng* has no counterpart in the Patent Act. And that text presents a sharply different question from the statutory question presented by the Patent Act. By its terms, far from calling for a determination of whether any kind of sale constitutes the conferring of "authority" from the rights holder, § 109(a) defines the circumstances (ownership of a copy lawfully made) that, when present, give a copy owner a right to sell or dispose of the owned copy "*without* the authority of the copyright owner." 17 U.S.C. § 109(a) (emphasis added). Moreover, as we have explained, and as the Court ruled in *Kirtsaeng* and *Quality King*, the Copyright Act makes the provisions on exclusivity, infringement, and importation all subservient to § 109(a). In the Copyright Act, the § 109(a) grant to copy owners overrides other requirements of authority from the rights holder, specifically those governing importa-

tion and sale. That is not so in the Patent Act, under which exhaustion textually can be nothing but an answer to a statutory question of when a patentee has, by a sale, conferred such authority.

Section 109(a)'s language, which gives an owner an entitlement to resell "*without* the authority of the copyright owner," does not make that entitlement depend on an assessment of whether a first sale made or authorized by the copyright holder confers resale authority on the buyer. The right to resell is given to the "owner" of an article "lawfully made" under the Act. The "owner" language—whose meaning was not at issue in *Kirtsaeng*— says nothing about where ownership is acquired and does not require a prior sale at all: a copy made by the person who owns it, as long as the making was authorized, is within § 109(a)'s language. *See* 133 S. Ct. at 1361 (discussing 17 U.S.C. § 115); 2 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 8.12[B][3][c] (2015). Even when ownership comes from a sale, moreover, the provision prescribes the result for the owner's resale entitlement in terms not dependent on "authority" from the copyright holder but as independent of any such authority. And the remaining requirement stated by the language at issue in *Kirtsaeng*—"lawfully *made* under this title"—undeniably refers only to the manufacture of the copy and whether that manufacture was lawful. That language, like the "owner" language, leaves no place for consideration of the location of a prior sale (if there was one), which is the issue here.

Years before deciding *Kirtsaeng*, the Court in *Quality King* had made clear that the language of § 109(a) makes sale location irrelevant: under that language, "the owner of goods lawfully made under the Act is entitled to the protection of the first sale

doctrine in an action in a United States court even if the first sale occurred abroad." 523 U.S. at 145 n.14. The Court in *Kirtsaeng* confirmed the point. 133 S. Ct. at 1371 (noting the "holding in *Quality King* that § 109(a) is a defense in U.S. courts even when 'the first sale occurred abroad' "). Not surprisingly, neither party in *Kirtsaeng* argued that the provision could be read to refer to the sale location.[15] And the Court readily dismissed a *sale*-location view as "not defensible" and facing "linguistic and other hurdles that . . . are insurmountable." *Id.* at 1366. With sale location off the table, the dispute in *Kirtsaeng* was simply between two different interpretations of the statutory reference to *manufacture* ("lawfully made under this title")—whether it referred to *where* manufacture occurred (the "geographic" interpretation) or to whether the manufacture was *lawful* under the standards of the Copyright Act (*e.g.*, with the copyright owner's permission, as opposed to pirated). For

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[15] The Second Circuit in *Kirtsaeng* had held that § 109(a) was inapplicable whenever the copy had been *made* abroad, *John Wiley & Sons, Inc.* v. *Kirtsaeng*, 654 F.3d 210, 222 (2d Cir. 2011), and Kirtsaeng's "question presented" to the Supreme Court was "whether the copyright owner is entitled to control downstream sales just because it opts to manufacture the copies abroad." Brief for Petitioner at i, *Kirtsaeng* (No. 11-697), 2012 WL 2641850. Kirtsaeng noted once in passing that a sale-location standard "sacrifices any pretense of fidelity to the statutory text" of § 109(a). *Id.* at 25. Wiley similarly recognized that "[t]he question presented is whether copies made outside the United States are 'lawfully made under this title' within the meaning of Section 109(a)." Brief for Respondent at i, *Kirtsaeng* (No. 11-697), 2012 WL 3836936. Wiley explained that the relevance of sale location was not being argued; and it nowhere argued that the sale of the books outside the United States, as opposed to their manufacture outside the United States, defeated exhaustion. *Id.* at 37–38.

that reason, whether an "implied license" would arise from sales in some circumstances was immaterial to the statutory question being debated, and the Court did not comment on that notion, despite its mention in the dissent, 133 S. Ct. at 1389 & n.25 (Ginsburg, J., dissenting), and the government's brief, Brief for the United States as Amicus Curiae Supporting Respondent at 21, *Kirtsaeng* (No. 11-697), 2012 WL 3902599.

In short, given the nature of the question framed by § 109(a), the Court in *Kirtsaeng* did not have occasion to decide, and did not decide, whether a foreign sale (by or authorized by the U.S. rights holder) is properly treated as conferring on the buyer, conclusively or presumptively, the authority to resell. The Court did not decide, even for copyrights, the question presented here for patents.

The nature of the statutory question decided in *Kirtsaeng* also shows why the Court's discussion of considerations supporting its textual conclusion cannot be transposed to the patent-law setting at issue here. The discussion of the statutory history and certain provisions of the Copyright Act, 133 S. Ct. at 1360–62, 1370, is statute-specific. And the Court's discussion of the absence of any constitutional history or congressional action permitting market division was limited to the copyright area. *Id.* at 1370–71. *Compare* 35 U.S.C. § 261 (patentee may assign rights "to the whole or any specified part of the United States").

Similarly, the Court's discussion of Lord Coke's 1628 description of his country's general judicial personal-property law, *id.* at 1363–64, is inapplicable here. That description, as already explained, is apt background for a provision, like § 109(a), that is *su-*

perior to any legislative grant of rights that cover post-purchase activities of a buyer. The Patent Act contains no such override of the Act's grant of rights to patentees. And the Court in *Kirtsaeng* drew from Lord Coke's description only a general recognition of "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods," adding that American antitrust law recognizes a similar point. 133 S. Ct. at 1363. That observation merely confirms that the result of the § 109(a) analysis is sensible because it fits one policy found in aspects of American and British law containing no specific statutory override. And the Court then cited *Bobbs-Merrill*, which construed the pre-1909 copyright statute not to contain an override in the circumstances at issue, 210 U.S. at 349–51, and noted that the next year, Congress adopted that result by enacting the statutory predecessor of § 109(a). *Kirtsaeng*, 133 S. Ct. at 1363–64.

In addition, the Court's account of the potential real-world consequences of the statutory interpretation it was rejecting, though it mentions sale location a few times, is pervasively tied to the issue actually in dispute—whether a foreign *manufacture* location makes § 109(a) inapplicable. 133 S. Ct. at 1364–67. Under that interpretation, the Court stated, the rights holder would have "permanent" control, *id.* at 1362, "perpetual downstream control," *id.* at 1371, of copies circulating in the United States as long as those copies had been *made* abroad: § 109(a) would not kick in to give resale rights to purchasers of those copies *even if* the copyright holder sold the article in the United States. *See also id.* at 1366 (referring to "the absurd result that the copyright owner can exercise downstream control even when it authorized the import or first sale"). As the government

notes to us, the Patent Act, which lacks a provision like § 109(a), is quite different: "there is no concomitant risk of 'perpetual downstream control' over patented goods." U.S. Br. 24. At the very least, an unrestricted patentee-made or -authorized sale in the U.S. triggers exhaustion as to the article sold.

Moreover, the "copyright-related consequences" emphasized by the Court in *Kirtsaeng*, 133 S. Ct. at 1367, were to a large extent, though not entirely, tied to the distinctive problems of museums, libraries, and booksellers. *Id.* at 1364–67. To that extent, the Court's overall analysis of plausible practical effects—of an interpretation keeping every foreign-made copy forever outside § 109(a)—was copyright-specific. The Court in *Kirtsaeng* also concluded that circuit-court precedent on § 109(a) was too fractured to give meaningful comfort that the practical problems from the Court's adoption of Wiley's view of § 109(a) were unlikely to materialize. *Id.* at 1366. In contrast, our exclusive jurisdiction and clear rule since 2001, together with the pre-2001 precedents from other courts, provide considerably more reason to discount predictions that adhering to a territorial line to make exhaustion unavailable based on a foreign sale will result in serious practical problems.

For all of those reasons, *Kirtsaeng* is not controlling in this case. The patent-law issue presented here requires a separate analysis in its own legal setting.

C

The Patent Act question is whether a foreign sale of a U.S.-patented article made or authorized by a U.S. patentee, standing alone, confers on the buyer authority to import the article into the United States and sell and use it here, even though such an act would be infringing in the absence of authority. The

best answer to that question, we conclude, is that such a foreign sale does not confer such authority. A U.S. patentee, simply by making or authorizing a foreign sale of an article, does not waive its U.S. rights to exclude regarding that article, either conclusively (no matter how clear the reservation of U.S. rights) or only presumptively (subject to sufficiently clear preservation of U.S. rights).

1

The combined logic of the statutory grant of patent rights and the long-recognized basis for exhaustion leads naturally to rejecting exhaustion based on a foreign sale. The statute gives patentees the reward available from American markets. A patentee cannot reasonably be treated as receiving that reward from sales in foreign markets, and exhaustion has long been keyed to the idea that the patentee has received its U.S. reward.

Thus, what the statute expressly provides to a U.S. patentee is the reward available from the right to exclude "in the United States." *See* 35 U.S.C. §§ 154(a)(1), 271(a).[16] The reward is inherently a *market* reward: "it is one of the legal beauties of the system that what is given by the people through their government—the patent right—is valued automatically by what is given by the patentee. His *patent* has value directly related to the value of his *invention*, as determined in the marketplace." *In re Kirk*, 376 F.2d 936, 964 (CCPA 1967) (Rich, J., dis-

[16] Congress has added certain limited extensions to foreign conduct. *See* 35 U.S.C. § 271(f). Those limited extensions are not applicable here and only strengthen the essential guarantee of a U.S.-market reward.

senting).[17] And the market reward, under the statute, is explicitly the reward available from American markets subject to American laws, a reward obtained by selling or authorizing sales in those markets.

At the same time, the Supreme Court has "explained the basis for [exhaustion] doctrine" in terms of the patentee's receipt of the reward given by the statute. *Bowman*, 133 S. Ct. at 1766. " 'The purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward . . . by the sale of the article.' " *Id.* (quoting *Univis*, 316 U.S. at 251, itself citing earlier authorities). Only when it is appropriate to assume the receipt of that reward does the sale support an inference of conferral of authority on an article's buyer (in the absence of clearly communicated restrictions on the authority conferred).

Whatever other issues may be presented by determining when a patentee has "received his re-

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[17] *See Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51 (1989) ("The federal patent system thus embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years."); Fed. Trade Comm'n, Evolving IP Marketplace 138–39 ("An important benefit of the patent system, in contrast to other methods of encouraging innovation, like direct prizes, is that it allows each invention to be valued directly through a market mechanism.") (citing Kenneth W. Dam, *The Economic Underpinnings of Patent Law*, 23 J. Legal Stud. 247, 248–49 (1994); Joseph Farrell, John Hayes, Carl Shapiro & Theresa Sullivan, *Standard Setting, Patents and Hold-Up*, 74 Antitrust L.J. 603 (2007)); *see also Aro II*, 377 U.S. at 507 (patent "damages" tied to market valuation); *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641, 648 (1915) (reasonable royalty measures "the value of what was taken" by infringement, necessarily a market value).

ward," the territorial nature of the statutory guarantee supplies a simple, strong reason to exclude foreign sales. The guarantee is the reward from sales in American markets, not from sales in foreign markets. A sale in a foreign market therefore does not furnish "the basis for" exhaustion— even for a presumption that authority is being conferred on the buyer to exploit the article in American markets by the actions (importation, sale, use, etc.) that are infringing in the absence of patentee-conferred authority.

American markets differ substantially from markets in many other countries, and not just because of disparities in wealth that can lead to dramatically different prices (especially for low-marginal-cost products). Government policies differ dramatically, including policies on price regulation and, most particularly, policies on the availability and scope of patent protection. Patents involve costly government-approval processes, and the standards vary.[18] The government explains:

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[18] *See, e.g.*, Robert Patrick Merges & John Fitzgerald Duffy, Patent Law and Policy: Cases and Materials 55 (5th ed. 2011); Graeme B. Dinwoodie, William O. Hennessey, & Shira Perlmutter, International and Comparative Patent Law § 2.03 at 53–54 (2002); John Gladstone Mills III, *A Transnational Patent Convention for the Acquisition and Enforcement of International Patent Rights*, 88 J. Pat. & Trademark Off. Soc'y 958, 958–59 (2006); Margaret A. Boulware, Jeffrey A. Pyle, & Frank C. Turner, *An Overview of Intellectual Property Rights Abroad*, 16 Hous. J. Int'l L. 441, 458–59 (1994).

A few dollar figures provide some context. For a U.S. patent, the minimum application fee is $2,560 (covering only the basic filing, search, examination, and issue fees). *See USPTO Fee Schedule*, U.S. Patent & Trademark Office, http://www.uspto.gov/learning-and-resources/fees-and-payment/

> The independence of national patent systems... is one of the defining principles of the international legal regime governing the protection of inventions. The United States has ratified the Paris Convention for the Protection of Industrial Property, originally adopted more than a century ago, which specifically provided in Article 4*bis* that "Patents applied for in the different contracting States... shall be independent of the patents obtained for the same invention in the other States...." 32 Stat. 1936 (Aug. 25, 1902). While international agreements facilitate the ability of inventors in one country to seek patent protection in others, the patents laws of each country are *not* reciprocal in their protections for particular inventions. As every patent attorney knows, the United States may issue a patent while another country denies protection for the same invention, or approves claims significantly different in scope.

U.S. Br. 15–16.

Copyrights are different. They generally spring into being without any government approval, and standards hardly vary compared to patenting standards. As the government says, "patent law is different from copyright law, under which authors auto-

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uspto-fee-schedule. As for lawyers' charges for preparing and prosecuting a patent application, a 2015 report indicated that the median charge to prepare a minimally complex utility patent application is $7,000, with responses to Office Actions ranging from $2,000 to $3,200 each. Am. Intellectual Prop. Law Ass'n, Report of the Economic Survey 29 (2015). For an example of filing fees for patents abroad, see European Patent Office, *Schedule of Fees*, http://www.epoline.org/myepoline_eofp_portletapp-2.8.3/fees/pdf?language=en.

matically 'enjoy copyright protection in nations across the globe' pursuant to the Berne Convention for the Protection of Literary and Artistic Works." U.S. Br. 16 (quoting *Golan* v. *Holder*, 132 S. Ct. 873, 878 (2012)); *see Golan*, 132 S. Ct. at 878 (referring to "Berne's 164 member states").[19] And there is no reason to think that the costs of copyright registration (not even a prerequisite to all copyright protection) are generally comparable to those of securing patent protection.[20]

Given the varying standards, and the separate examination processes and fees, a U.S. patentee may choose not even to seek patent protection in particular foreign countries. And those seeking protection may not obtain it, or may not obtain protection comparable to that of the U.S. patent. In either event, foreign sales in such circumstances may not occur under protections likely to produce market returns comparable to the reward contemplated by our patent law. Such country-to-country differences in patent law, moreover, are only part of the likely differ-

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[19] It has been noted that, as a matter of statutory text, "of the three principal forms of [federally protected] intellectual property [copyright, patent, trademark], patent rights are the most explicitly territorial." Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 Va. J. Int'l L. 603, 605 (1997); *see* Dinwoodie *et al.*, § 1.03 at 30.

[20] The application fee for a U.S. copyright registration is $35. *Fees*, U.S. Copyright Office, http://copyright.gov/about/fees.html. The same 2015 Survey that gives a median charge of $7,000 for legal services for preparing a minimally complex patent application (before the back-and-forth of prosecution occurs) gives a figure of $400 for services to prepare an application for a copyright registration. Am. Intellectual Prop. Law Ass'n, Report at 29.

ences affecting foreign sales, supplementing differences in economic circumstances and in governments' price and other non-patent regulations bearing on sales.

For those reasons, a foreign sale, standing alone, is not reasonably viewed as providing the U.S. patentee the reward guaranteed by U.S. patent law. Such a sale is not reasonably viewed as itself a waiver by the patentee of its U.S. patent rights to prevent the buyer or others from bringing that article into the United States and selling or using it to satisfy a U.S.-market demand that the patentee could otherwise help satisfy at U.S.-market prices, as guaranteed by the Patent Act.

2

The only Supreme Court decision directly addressing the effect of a foreign sale on U.S. patent rights is the 1890 decision in *Boesch* v. *Graff*, 133 U.S. 697. Albert Graff and J.F. Donnell, by assignments, held an 1883 U.S. patent on certain lamp burners. Without their permission, Emile Boesch and Martin Bauer sold patent-covered burners in the United States. Boesch and Bauer had bought those burners from a supplier in Germany, without permission from the holders of the rights under German patents (dated 1879–1880), which had been issued to the same individuals as the U.S. patent. The German supplier was authorized to make the sale to Boesch and Bauer, not by the German patentees, but by a German law that allowed continuation of certain preparatory activities that began before the application for the German patents was filed. 133 U.S. at 698–99, 701–02. When Graff and Donnell sued Boesch and Bauer for infringement, the single-judge circuit court for the Northern District of California

found infringement, and the Supreme Court affirmed that holding. *Id.*

The Court rejected Boesch and Bauer's defense that they "could not be held for infringement, because they purchased the burners in Germany from a person having the right to sell them there, though not a licensee under the German patents." *Id.* at 699. The Court stated "the exact question presented [a]s whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent." *Id.* at 702. In answering the question, the Court recited the then-leading decisions on domestic exhaustion, culminating in *Adams*, which, the Court observed, held that, within the confines of the United States, the courts would not add an unexpressed territorial limit to the rights conferred by an unrestricted sale by a regional assignee. *Id.* at 703. The Court then concluded that the cross-border situation was different. Its full rationale was as follows:

> The right which [the German seller] had to make and sell the burners in Germany was allowed him under the laws of that country, and purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent. A prior foreign patent operates under our law to limit the duration of the subsequent patent here, but that is all. The sale of articles in the United States under a United States patent cannot be controlled by foreign laws.

Id.

That rationale by its terms does not make relevant whether the foreign sale was made under a foreign patent. Indeed, the second sentence says that a "prior foreign patent" does not cause loss of U.S. patent rights. Rather, the rationale turns only on the fact that the foreign sale was made under foreign law.[21] The last sentence states the territorial principle: "The sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Id.*

That principle does not preclude an accused infringer from establishing that the U.S. patentee actually gave it a license, expressly or by implication. It means that the exhaustion doctrine does not treat a foreign sale, lawful abroad for whatever reason, as having the cross-border legal effect of authorizing otherwise-infringing U.S. acts involving the purchased article. And that is how the principle has been understood by the Supreme Court. *See Keeler*, 157 U.S. at 664–65 ("The exact question presented was whether a dealer residing in the United States could purchase in another country articles patented there from a person authorized there to sell them, and import them to and sell them in the United States without the license or consent of the owners of the United States patent, and the court held that the sale of articles in the United States under a United States patent cannot be controlled by foreign laws. In this case neither the patentee nor any assignee had ever received any royalty or given any license to use

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[21] The "duration" language refers to a sentence in Rev. Stat. 4887 that tied certain U.S. patents' expiration dates to those of related foreign patents. *See* Robinson, § 337, at 461. Congress deleted the provision in 1897. Act of Mar. 3, 1897, ch. 391, § 3, 29 Stat. 693; *see* H.R. Rep. No. 1923, at 38 (1952).

the patented article in any part of the United States."); *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689, 692 (1923) (trademark case, explaining: "Ownership of [particular] goods . . . does not necessarily carry the right to sell them at all in a given place. If the goods were patented in the United States a dealer who lawfully bought similar goods abroad from one who had a right to make and sell them there could not sell them in the United States. *Boesch* . . . .").

The principle of *Boesch*, precluding foreign control of U.S. rights, has a mirror-image counterpart in the territoriality principle of U.S. patent law that broadly denies projection of U.S. patent rights to cover foreign conduct. In *Brown* v. *Duchesne*, 60 U.S. (19 How.) 183 (1857), the Supreme Court, referring to the patent statutes, said that "these acts of Congress do not, and were not intended to, operate beyond the limits of the United States." *Id.* at 195. The Court also explained the guaranteed reward from domestic markets: the patent laws "secure to the inventor a just remuneration from those who derive a profit or advantage, within the United States, from his genius and mental labors." *Id.*; *see, e.g.*, *Dowagiac*, 235 U.S. at 650 ("The right conferred by a patent under our law is confined to the United States and its territories (Rev. Stat. § 4884, Comp. Stat. 1913, § 9428), and infringement of this right cannot be predicated of acts wholly done in a foreign country.").

The Supreme Court relied on the strength of the territorial principle in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972), which rejected a claim of infringement against Deepsouth just because the ultimate combination covered by the patent was made abroad, after Deepsouth shipped all

the parts from the United States. The Court explained:

> Our patent system makes no claim to extraterritorial effect; "these acts of Congress do not, and were not intended to, operate beyond the limits of the United States," *Brown* v. *Duchesne*, 19 How., at 195 (1856), and we correspondingly reject the claims of others to such control over our markets. *Cf. Boesch* v. *Graff*, 133 U.S. 697, 703 (1890).

406 U.S. at 531.

In *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437 (2007), the Supreme Court quoted the foregoing passage from *Deepsouth* as support for "[t]he traditional understanding that our patent law 'operate[s] only domestically and do[es] not extend to foreign activities,' . . . [which] is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States. 35 U.S.C. § 154(a)(1) (patentee's rights over invention apply to manufacture, use, or sale 'throughout the United States' and to importation 'into the United States')." *Id.* at 455. And the Court added:

> As a principle of general application, moreover, we have stated that courts should "assume that legislators take account of the legitimate sovereign interests of other nations when they write American laws." *F. Hoffmann-La Roche Ltd.* v. *Empagran S. A.*, 542 U.S. 155, 164 (2004); see *EEOC* v. *Arabian American Oil Co.*, 499 U.S. 244, 248 (1991). Thus, the United States accurately conveyed in this case: "Foreign conduct is [generally] the domain of foreign law," *and in the area here involved, in particular, foreign*

> *law "may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions."* Brief for United States as *Amicus Curiae* 28.

Id. (emphasis added). The Court then applied the presumption of congressional respect for territorial limits in patent law to interpret the very provision, § 271(f), that Congress had enacted (in 1984) to supersede *Deepsouth*, explaining that the presumption "remains instructive in determining the *extent* of the statutory exception" to the strict territorial limits elsewhere stated in the statute. *Id.* at 456.

The principles thus expressed, perhaps especially the sentence highlighted in the quote just above, recognize what we noted above: Patent law is especially territorial, and laws vary considerably from country to country. The Supreme Court's recognition of those points reinforces our conclusion that foreign markets are not the predictable equivalent of the American markets in which the U.S. patentee is given a right to exclude and the rewards from that exclusivity. The Court's closest patent-law precedents thus support our holding that sales in foreign markets should not be presumed to confer on the buyer authority to displace sales in American markets.

3

Congress has not enacted a general provision of the Patent Act specifically addressed to foreign-sale exhaustion of U.S. patent rights. Congress has left the general issue to judicial resolution.

When the subject arose in the Uruguay round of multilateral negotiations that led to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the parties agreed not to address the

subject, stating, in article 6, that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." TRIPS, Apr. 15, 1994, 33 I.L.M. 1197, 1200, quoted in *Kirtsaeng*, 133 S. Ct. at 1383 (Ginsburg, J., dissenting). And when Congress implemented the international agreement through the 1994 legislation that (among other things) added the new importation ban to § 271(a), the accompanying Statement of Administrative Action—which Congress deemed authoritative, 19 U.S.C. § 3512(d)—stated that "[t]he Agreement . . . does not affect U.S. law or practice relating to parallel importation of products protected by intellectual property rights." H.R. Rep. No. 103-316, at 633, 981 (1994), *reprinted in* 1994 U.S.C.C.A.N. 4040, 4280. The recent Trans Pacific Partnership agreement includes a similar disclaimer, reserving the parties' rights to make other international agreements on the subject. *See* Trans-Pacific Partnership art. 18.11 & n.8, Oct. 5, 2015, https://ustr.gov/trade-agreements/free-trade-agreements/ trans-pacific-partnership/tpp-full-text.

Congress did act in three specific instances formally to guarantee a U.S. patentee the right to retain its U.S. rights despite selling abroad. Congress so provided through legislation, adopted by both houses and signed by the President, that approved three international agreements. United States-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, 118 Stat. 1103 (2004);[22] United

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[22] Article 15.9.4 of the U.S.-Morocco agreements says: "Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory." A footnote attached to the provi-

States-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-286, 118 Stat. 919 (2004);[23] United States-Singapore Free Trade Agreement Implementation Act, Pub. L. No. 108-78, 117 Stat. 948 (2003).[24] In doing so, Congress did not provide the promised rights other than through the existing Patent Act provisions of §§ 154, 271.

Those congressionally approved guarantees would be negated if Impression's view of the Patent Act were adopted: U.S. patentees would lose their U.S. patent rights by selling abroad. An interpreta-

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sion adds: "A Party may limit application of this paragraph to cases where the patent owner has placed restrictions on importation by contract or other means." United States-Morocco Free Trade Agreement, Morocco-U.S., June 15, 2004, 44 I.L.M. 544 (2005).

[23] Article 17.9.4 of the U.S.-Australia agreement says: "Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from a patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory, at least where the patentee has placed restrictions on importation by contract or other means." United States-Australia Free Trade Agreement, Aus.-U.S., May 18, 2004, KAV 6422 (2005).

[24] Article 16.7.2 of the U.S.-Singapore agreement says: "Each Party shall provide a cause of action to prevent or redress the procurement of a patented pharmaceutical product, without the authorization of the patent owner, by a party who knows or has reason to know that such product is or has been distributed in breach of a contract between the right holder and a licensee, regardless of whether such breach occurs in or outside its territory." A footnote attached to that sentence adds: "A Party may limit such cause of action to cases where the product has been sold or distributed only outside the Party's territory before its procurement inside the Party's territory." United States-Singapore Free Trade Agreement, Sing.-U.S., May 6, 2003, 42 I.L.M. 1026 (2003).

tion of a statute that produces such a contradiction with other enactments is to be avoided, at least where other considerations already point against such an interpretation. *See FDA* v. *Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 143 (2000); *Vimar Seguros y Reaseguros, S.A.* v. *M/V Sky Reefer*, 515 U.S. 528, 539 (1995); *W. Va. Univ. Hosps., Inc.* v. *Casey*, 499 U.S. 83, 100 (1991). The three congressional enactments thus provide a further reason to reject Impression's view. At the same time, they leave to our internal law—the Patent Act, as judicially interpreted—whether even a presumptive-exhaustion rule governs. The agreements say nothing to undermine our reasons for rejecting a presumptive-exhaustion rule.

The only other legislative enactment presented for our consideration is 21 U.S.C. § 381(d)(1)–(2). Paragraph (1) of that subsection states a general rule that "no drug subject to section 353(b) of this title [concerning prescription-necessitating drugs] or composed wholly or partly of insulin which is manufactured in a State and exported may be imported into the United States unless the drug is imported by the manufacturer of the drug." The general rule is subject to one exception, stated in paragraph (1), for certain prescription drugs imported by pharmacists and wholesalers from Canada, as regulated under 21 U.S.C. § 384. And it is subject to a second exception stated in paragraph (2), which authorizes the Secretary of Health and Human Services to permit importation otherwise within the paragraph (1) ban "if the drug is required for emergency medical care." 21 U.S.C. § 381(d)(2).

That provision does not alter our conclusion. The provision does not purport to limit patentees' rights regarding importations under 35 U.S.C. §§ 154, 271.

It adds an express government-enforced ban on certain importations, and it makes certain exceptions to the added ban, authorizing the Secretary to allow certain importations. Perhaps where the Secretary does so, an injunctive remedy might be unavailable to the patentee under 35 U.S.C. § 283, for public-interest reasons. *See eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388 (2006). But nothing in 21 U.S.C. § 381(d) makes non-infringing any conduct that otherwise would be infringing.

Congress may modify patentees' rights under the Patent Act. It may do so with respect to particular articles, without modifying the general exhaustion rule for foreign sales under the Patent Act—though § 381(d) does not do even that. Or it may more generally prescribe a general exhaustion rule for patented articles, specifying the conditions for exhaustion, as it did in the Copyright Act for copyrighted works. But it has not done that either.

4

Our no-exhaustion conclusion—which leaves undisturbed the availability of an express- or implied-license defense to infringement—is broadly consistent with the decisions of courts other than the Supreme Court, with the apparent exception of a trial-court decision that predates *Boesch*.

The pre-*Boesch* decision is *Holiday* v. *Mattheson*, 24 F. 185 (C.C.S.D.N.Y. 1885), in which few facts are set out. The defendants bought some U.S.-patented article in England from "a vendee of the patentee," "without restriction or conditions." *Id.* at 185. The court denied the patentee's motion for a preliminary injunction against U.S. activities involving the article. It reasoned that, whether or not an article is patented, "[w]hen the owner sells an article without

any reservation respecting its use, or the title which is to pass," "[t]he presumption arising from such a sale is that the vendor intends to part with all his rights in the thing sold"; and a patentee-seller "parts with his monopoly" as to that article—"unless by the conditions of the bargain the monopoly right is impressed upon the thing purchased," *i.e.*, unless "the owner of a patent sells the patented article under circumstances which imply that the purchaser is not to acquire an unqualified property in the thing purchased." *Id.* at 185–86. That description, with its emphasis on the absence or presence of patentee-conveyed restrictions on post-purchase use, is taken entirely from domestic exhaustion law. The court said nothing to recognize that a distinct issue is presented when the sale was made abroad; and the opinion, describing few facts, does not make clear even indirectly if the circumstances would have given rise to an implied-license defense. In any event, just a few years after the trial-court decision in *Holiday*, the Supreme Court in *Boesch* made clear how much the crossing of international boundaries matters.

After *Boesch*, the Second Circuit in *Dickerson* v. *Matheson*, 57 F. 524 (2d Cir. 1893), affirmed a finding of infringement against Matheson & Co., which had acquired from a German seller in 1887, and brought into the United States for sale and use here, batches of a coloring agent that was subject to a U.S. patent and a German patent, both assigned to the Bayer Company. The German seller (the Berlin Company) was a licensee of the Bayer Company, with the right to sell both in Europe and the United States, and it made clear that importation into the United States was prohibited. *Id.* at 525–26. In the suit brought by Dickerson, to whom the Bayer Com-

pany assigned the U.S. patent in 1888, the Second Circuit rejected Matheson's defense to infringement. It read *Boesch* to establish that "[a] purchaser in a foreign country of an article patented in that country and also in the United States, from a licensee under the foreign patent only, does not give the purchaser a right to import the article into, and to sell it in, the United States, without the license or consent of the owner of the United States patent." *Id.* at 527.

The Eighth Circuit reached a similar result in *Dickerson* v. *Tinling*, 84 F. 192 (8th Cir. 1897), involving Bayer & Co.'s phenacetine product. The court noted that "it appears that no patent [on the product] had ever been issued in Germany" and that "every package of phenacetine that had ever been sold by Bayer & Co. in a foreign country had a prohibition against its importation into and sale within the United States printed upon it, and was sold subject to that prohibition." *Id.* at 193. It was unclear whether Tinling bought the phenacetine at issue from Bayer & Co. (or its vendees) or from "others," but it did not matter to the outcome. *Id.* at 194. "If he bought it of others than Bayer & Co. or their vendees, he bought with it no right to sell it in the United States, because no one but Bayer & Co. and their vendees had that right in this country." *Id.* "On the other hand, if [Tinling] bought the phenacetine he is selling in a foreign country from Bayer & Co., or from its vendees, subject to the express condition that it should not be imported into the United States, or sold within their limits, the exclusive right to sell the patented article within the United States which was granted to Bayer & Co. by the patent was not abridged by that purchase." *Id.*

The Eighth Circuit pointedly noted that it did not have to decide what the result would be if no re-

strictions attended a sale made or approved by Bayer. It said: "Conceding—but not deciding—that one who buys a patented article without restriction in a foreign country from the owner of the United States patent" is clear of the U.S. patent for domestic sale and use, *id.* at 195 (citing *Holiday* and *Matheson*), "there can be no doubt that a patentee has the same right and power to sell the patented article upon conditions or with restrictions that he has to sell it at all," *id.* With Bayer having "sold on the express condition that [the phenacetine] should not be imported into or sold within the United States," Tinling's domestic sale of the purchased product was infringing. *Id.* The Eighth Circuit thus reversed the trial court's denial of an injunction and ordered an injunction to issue. *Id.*

The Second Circuit likewise reversed the denial of infringement relief in *Daimler Manufacturing Co.* v. *Conklin*, 170 F. 70 (2d Cir. 1909). The U.S. holder of certain automobile-component patents (Daimler) sought to enjoin the use in the United States of a vehicle containing such components. Conklin had bought the vehicle in Europe, under no restrictions as to importation into or use within the United States, from a company licensed to sell it in Europe by the holder of European patent rights—a company *distinct from* the U.S. patent-holding company, though with common origins and some overlapping ownership involving the inventor Maybach, *see Daimler Manufacturing Co.* v. *Conklin*, 160 F. 679 (C.C.S.D.N.Y. 1908). The Second Circuit, based on *Boesch*, concluded: "The use of articles covered by a United States patent within the United States can no more be controlled by foreign law than the sale can. The sale by a German patentee of a patented article may take it out of the monopoly of the German

patent, but how can it take it out of the monopoly of the American patentee who has not sold?" 170 F. at 72.

In 1920, the Second Circuit affirmed the denial of relief where it was clear from the circumstances that the U.S. patentee had granted permission for otherwise-infringing U.S. activities with airplanes bought in Canada. *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Eng'g Corp.*, 266 F. 71 (2d Cir. 1920). Curtiss was the holder of U.S. patents on various airplane-engine technologies. During World War I, an 83-percent-owned Canadian subsidiary of Curtiss (which the court treated as indistinguishable from Curtiss) granted a license—covering its Canadian patents and applications and any further inventions it owned or controlled involving changes to the engines at issue—to an entity created by the British government, authorizing the latter to make airplanes for sale to and use by the British government. *Id.* at 72–74. The British government bought planes during the war and, after the war ended, sold some of them to United Aircraft, which brought them into the United States for sale and use here. *Id.* at 72, 74. When Curtiss sued, the dispute was over whether "the authorization to make was general and unrestricted or subject to qualification and conditions, as to the disposition of the planes by the British government." *Id.* at 77; *id.* at 75.

The Second Circuit, agreeing with the district court, concluded that the authorization gave the British government freedom from U.S. patent constraints on what it could do with the planes. The court relied on "the very nature of things" and "the language used in the agreements." *Id.* at 75. It explained that "[a]n aeroplane has been said to be the most mobile article manufactured, and it is not con-

fined by geographical boundaries," *id.*; that the British had used airplanes in numerous countries during the war, *id.*; and that "the aviation fields in Texas and in other states were placed at the disposal of the British authorities and were actually used by them as training fields for Canadian aviators," *id.* It concluded: "[Curtiss] and the British government alike understood and intended that the aeroplanes to be manufactured by that government as well as those to be supplied to it by [Curtiss] were to become the absolute property of the government, and were to be disposed of as the latter should see fit. The express language of the contract is that the aeroplanes and other articles should 'become and be the absolute property of the British government.'" *Id.*

Some decisions of district courts from decades later round out the picture of case law predating *Jazz Photo*. Judge Lord rejected an exhaustion defense in *Griffin* v. *Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283 (E.D. Pa. 1978). Griffin was the owner of the U.S. patent, as well as Italian patents, covering certain machinery. Keystone bought several machines in Italy from Griffin's exclusive licensee in Italy and brought them into the United States, one for use, two for sale. Griffin sued Keystone for infringement, and Keystone sought summary judgment based on exhaustion. Judge Lord rejected the defense.

He read *Boesch* to apply, because in *Boesch* "[t]he source of the alleged infringer's authorization under foreign law . . . was without significance in the Court's reasoning." *Id.* at 1285. Therefore, it did not matter whether Griffin "owned concurrent United States and Italian patents and had entered into analogous licensing agreements concerning the same inventions," giving Griffin a share of royalties from

the Italian and American exclusive licensees. *Id.* "[T]he basic thrust of the *Boesch* decision" was "that the 'sale of articles in the United States under a United States patent cannot be controlled by foreign laws.'" *Id.* at 1286 (quoting 133 U.S. at 703).

In *Sanofi, S.A.* v. *Med-Tech Veterinarian Products, Inc.*, 565 F. Supp. 931 (D.N.J. 1983), Judge Sarokin denied a preliminary injunction to U.S. patentee Sanofi, S.A., but granted one to U.S. exclusive licensee American Home Products. A Sanofi subsidiary in France sold to an American processor certain pharmaceutical products covered by Sanofi's U.S. patent; the subsidiary "placed no restrictions in the sales contract," and Sanofi had no French patent. *Id.* at 938; *see also id.* at 934–35. When the buyer brought the products to the United States for sale, both Sanofi and American Home Products sued.

The court concluded first that "if *Sanofi* were permitted to impose restrictions upon the resale of its patented product, the expectations of the purchaser would be defeated." *Id.* at 938 (emphasis added). "[W]here the owner of a patent exhibits conduct from which one dealing with him may properly infer that the owner consents to his use of the patent, an implied license will arise." *Id.* at 940 (citing *De Forest Radio*, 273 U.S. at 241). But a different conclusion was required as to American Home Products, the U.S. exclusive licensee, the court reasoned, which did not cede its patent rights. "Because the purchaser is under an obligation to inquire of the seller as to the existence of any outstanding licenses, the purchaser cannot claim that his expectations have been frustrated if he fails to make the necessary inquiry and later discovers that an outstanding license interferes with his right of enjoyment." *Id.* "If the court were to hold that Sanofi's sale of the product ex-

hausted the patent, it would be crediting Sanofi with greater rights than the patentee actually had. Sanofi had no right to allow its product to enter this country without the permission of its exclusive licensee." *Id.* at 941.[25]

All of the foregoing decisions after *Boesch* reflect both (a) the *Boesch* principle that foreign laws do not control domestic patent rights and (b) some assessment of the particular circumstances and language of foreign sales to determine if the U.S. patentee gave permission for importation. The pre-*Boesch* decision in *Holiday* aside, the results accord with the *Jazz Photo* no-exhaustion rule coupled with the availability of a defense based on an express or implied license. That combination of principles, supported in the statute and Supreme Court doctrine, provides a clear doctrinal statement that fits the pre-*Jazz Photo* case law from outside the Supreme Court.

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Finally, we consider what we can reliably gauge about the likely real-world consequences of one answer or another to the exhaustion question presented here. As on the first issue before us, the amicus briefs filed here present competing arguments about the effect of one foreign-sale exhaustion rule or another on their interests and the interests they promote, offering varying amounts of empirical support. Such arguments necessarily play a much more limited role for us than they might for Congress. As on the first issue, all that we can conclude is that we see

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[25] *See also Kabushiki Kaisha Hattori Seiko* v. *Refac Tech. Dev. Corp.*, 690 F. Supp. 1339 (S.D.N.Y. 1988) (interpreting settlement agreement to bar patentee Refac from suing purchasers of goods from Hattori).

no basis for altering the conclusion we think warranted by the legal sources already considered.

a. We have not been shown that substantial problems have arisen with the clear rule of *Jazz Photo*, which has been in place since 2001, or with the comparable legal understandings based on a century of case law in the area. There is, of course, the possibility—noted by the Dissent at 27, citing amici's assertions—of unintended infringement by buyers of goods in foreign countries who bring them into the United States, whether to use them as components in new goods they make, to sell them, or to use them as consumers. But that possibility is limited by the availability of an implied-license defense from the circumstances of a sale (perhaps, *e.g.*, an unrestricted patentee sale at a seaport or airport to a buyer loading or boarding a vessel or plane bound for the United States). In addition, a large share of such possible unintended infringement, according to the most common policy complaint by electronics-industry amici, is by definition immaterial to any exhaustion—namely, infringement of patents asserted by *non-practicing entities* that have neither made nor authorized the sale of patent-covered articles. The only scenario relevant to exhaustion is one involving patentee-made or -authorized foreign sales, and we simply have no reliable evidence that the possibility of unintended infringement in that scenario is actually a significant issue in practice. The absence of such evidence in the many years since *Jazz Photo*, and the still longer period since *Boesch*, provides good reason to think otherwise.

Indeed, it has long been a feature of the patent-law landscape that there can be instances of innocent infringement, because § 271(a) sets a "strict-liability" standard. *Commil USA, LLC* v. *Cisco Systems, Inc.*,

135 S. Ct. 1920, 1926 (2015). Thus, even domestic purchasers of products from domestic sellers who have not obtained authority from the owners of patents covering the products' components could find themselves in that position. But Congress has left strict liability in place, even in light of the scenario not relevant to exhaustion, *i.e.*, patent infringement claimed by non-practicing-entity patentees that have neither made nor authorized the sales at issue. In any event, despite the law in place since *Jazz Photo* and for decades earlier, there is no reason to think that this is a distinctive problem for *foreign*-purchased goods, much less a problem affecting a meaningful share of foreign sales leading to imports.

In this respect, we have no reason to think that the most serious real-world problems described in *Kirtsaeng* carry over to the patent arena. Prominent among the problems in *Kirtsaeng* were those that would be faced, under the rejected interpretation of § 109(a), by libraries, museums, and bookshops. Those entities often would be dealing on a regular basis with changing inventories of large numbers of individually distinct long-shelf-life works subject to copyrights that have multiple owners and that last for periods far longer than the terms of patents (and variable with the life of the authors). *See Eldred*, 537 U.S. at 194–96 (describing copyright terms). And there was good reason to think that they built up "deeply embedded" reliance interests in the absence of clear law pointing against § 109(a)'s applicability just because a work was made abroad. *Kirtsaeng*, 133 S. Ct. at 1366. If there is a counterpart to such situations in the patent arena, it has not been shown to loom large in the full range of circumstances governed by the answer to the question of foreign-sale-exhaustion.

b. Overturning *Jazz Photo* would plausibly cause significant disruption of existing practices adopted under the contrary law established by *Jazz Photo* and decades of prior case law. Such disruption is most likely if exhaustion of U.S. rights were held to follow from a foreign sale without the U.S. patentee having the ability to reserve its U.S. rights. While a conclusive-exhaustion rule is opposed by the government, it is the rule urged by Impression and certain amici that stress the possibility of unintended infringement we have just discussed.

An example of likely disruption involves pharmaceutical products. There seems to be no dispute that U.S.-patented medicines are often sold outside the United States at substantially lower prices than those charged here and, also, that the practice could be disrupted by the increased arbitrage opportunities that would come from deeming U.S. rights eliminated by a foreign sale made or authorized by the U.S. patentee.[26] One official recognition of both the fact of low prices abroad and the linkage of such prices to territorial resale protection appears in a 2003 World Trade Organization decision made with the agree-

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[26] *See, e.g.*, Mattias Ganslandt & Keith E. Maskus, *Parallel Imports and the Pricing of Pharmaceutical Products: Evidence from the European Union*, 23 J. of Health Econ. 1035, 1036 (2004) (discussing WTO General Council, Implementation of paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health, Aug. 30, 2003, www.wto.org/english/tratop_e/trips_e/implem_para6_e.htm); Mainak Mazumdar & Dyuti S. Banerjee, *On Price Discrimination, Parallel Trade and the Availability of Patented Drugs in Developing Countries*, 32 Int'l Rev. L. & Econ. 188, 189–93 (2012); Daniel Jacob Hemel & Lisa Larrimore Ouellette, *Trade and Tradeoffs: The Case of International Patent Exhaustion*, 115 Colum. L. Rev. Sidebar (forthcoming 2016), http://ssrn.com/abstract=2667338.

ment of the United States. The WTO there waived certain TRIPS patent-recognition provisions in order to allow certain countries to import generic versions of needed medicines. The WTO took care, however, to condition the waiver on agreement by the importing countries "to control re-exportation of drugs they import in this fashion." Ganslandt & Maskus, at 1036 (discussing WTO General Council, Implementation of paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health, Aug. 30, 2003, www.wto.org/english/tratop_e/trips_e/implem_para6_e.htm). Reversing *Jazz Photo* and replacing it with a conclusive-exhaustion rule would likely upset such established practices.

c. A presumptive-exhaustion rule, subject to some kind of preservation of U.S. rights by the U.S. patentee when making or authorizing a foreign sale, would be less consequential. After all, to try to negate a potential implied-license defense, U.S. patentees would have an incentive to make express reservations of U.S. rights in making or authorizing foreign sales, simply to make clear that no license was being conferred. But even for the U.S. patentees that recognize the incentive and try to act on it, whether there is a presumptive loss of U.S. rights makes a difference. In particular, it makes a difference—though we cannot say just how significant—who has the burden of proof on the issue: must the patentee prove a reservation (communicated to the accused infringer) to avoid exhaustion, or must the accused infringer prove a license?

A U.S. patentee that wishes to reserve its U.S. rights may not be able to do so. For a foreign sale, the required reservation is an act in a foreign country. And the foreign sovereign, or local governments in the country, may prohibit sellers from stating res-

ervations of rights that would make importation into and sale in the United States more difficult.

A presumptive-exhaustion rule would place a U.S. patentee's preservation of U.S. rights within foreign sovereign control. For doctrinal reasons already emphasized, we should avoid attributing to Congress such a ceding of control over domestic rights to foreign sovereigns without clearer reason than we have seen here. The Supreme Court's final statement of its rationale in *Boesch* says as much: "The sale of articles in the United States under a United States patent cannot be controlled by foreign laws." 133 U.S. at 703. Indeed, such foreign control of U.S. rights is a mirror image of projecting U.S. patent rights into foreign sovereigns' territories. The Supreme Court has long recognized that the latter is strongly disfavored in reading the Patent Act. *See* pages 79–81, *supra*. And since *Boesch*, the Court has twice recognized the symmetric impropriety of reading the Patent Act to allow projection of foreign sovereigns' decisions to control rights in U.S. territory: "Our patent system makes no claim to extraterritorial effect; 'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States,' *Brown* v. *Duchesne*, 19 How., at 195; and we correspondingly reject the claims of others to such control over our markets. Cf. *Boesch* v. *Graff*, 133 U.S. 697, 703 (1890)." *Deepsouth*, 406 U.S. at 531; *see Microsoft*, 550 U.S. at 455.

In practical terms, moreover, there is a plausible problem with adopting a presumptive-exhaustion rule, compared to leaving the matter to express- or implied-license doctrine. Intermediary companies between the foreign purchase and the importation into the United States may be created that make it difficult for the U.S. patentee to carry an affirmative

burden of proving adequate notice of reservations attached to a foreign-sold article. Once the article leaves the hands of the initial seller (the U.S. patentee or its authorized seller), the U.S. patentee seems likely to have limited knowledge about the movement of the article to U.S. markets, through what may be multiple hands. On the other hand, if the burden is on the U.S. importer/seller to establish a conferral of authority, as it is under the express- or implied-license doctrine, there would be incentives to communicate a conferral of authority reliably throughout the chain of custody on the way to the U.S. importer and seller. That is because the latter, at the end of supply chain, would have the incentive to insist on ultimately receiving such information in order to establish the license defense.

A related point may be made about the reasonable expectations of a potential U.S. reseller of goods acquired abroad in sales made or authorized by a U.S. patentee. As to the reseller's freedom from the patentee's U.S. rights, the difference between a rule leaving the matter to the reseller's affirmative proof of a license (express or implied) and a rule of presumptive exhaustion (subject to disproof by the U.S. patentee) is significant just when there are genuine uncertainties about whether a license could be established. But in that situation the reseller is not entitled to a strong expectation that it has permission to conduct its otherwise-infringing activities in the United States.

CONCLUSION

We hold that, when a patentee sells a patented article under otherwise-proper restrictions on resale and reuse communicated to the buyer at the time of sale, the patentee does not confer authority on the

buyer to engage in the prohibited resale or reuse. The patentee does not exhaust its § 271 rights to charge the buyer who engages in those acts—or downstream buyers having knowledge of the restrictions—with infringement. We also hold that a foreign sale of a U.S.-patented article, when made by or with the approval of the U.S. patentee, does not exhaust the patentee's U.S. patent rights in the article sold, even when no reservation of rights accompanies the sale. Loss of U.S. patent rights based on a foreign sale remains a matter of express or implied license.

Under our first holding, we reverse the district court's judgment of non-infringement as to the Return Cartridges first sold in the United States. Under our second holding, we affirm the district court's judgment of infringement as to the cartridges first sold abroad. The case is remanded for entry of a judgment of infringement for Lexmark and for any further proceedings necessary upon entry of such judgment.

Costs awarded to Lexmark.

AFFIRMED IN PART, REVERSED IN PART, AND REMANDED

United States Court of Appeals for the Federal Circuit

LEXMARK INTERNATIONAL, INC.,
Plaintiff-Cross-Appellant

v.

IMPRESSION PRODUCTS, INC.,
Defendant-Appellant

QUALITY CARTRIDGES, INC., JOHN DOES, 1-20, BLUE TRADING LLC, EXPRINT INTERNATIONAL, INC., LD PRODUCTS, INC., PRINTRONIC CORPORATION, TESEN DEVELOPMENT (HONG KONG) CO. LTD., BENIGNO ADEVA AND HIS COMPANIES,
Defendants

2014-1617, 2014-1619

Appeals from the United States District Court for the Southern District of Ohio in No. 1:10-cv-00564-MRB, Judge Michael R. Barrett.

DYK, *Circuit Judge*, dissenting, with whom *Circuit Judge* HUGHES joins.

I respectfully dissent from the majority's holding that *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), and *Jazz Photo Corp.* v. *International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), remain good law. First, I agree with the government that *Mallinckrodt* was wrong when decided, and in any event cannot be reconciled with the Supreme Court's recent decision in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617 (2008). We

exceed our role as a subordinate court by declining to follow the explicit domestic exhaustion rule announced by the Supreme Court.

Second, I would retain *Jazz Photo* insofar as it holds that a foreign sale does not in all circumstances lead to exhaustion of United States patent rights. But, in my view, a foreign sale does result in exhaustion if an authorized seller has not explicitly reserved the United States patent rights.

I. DOMESTIC EXHAUSTION

A

Both here and in *Mallinckrodt* the patentee itself sold the patented item to the purchaser. In *Mallinckrodt*, "the device [was] manufactured by [the patent owner], who [sold] it to hospitals as a unitary kit." 976 F.2d at 702. Here, as the majority recognizes, "Lexmark sells its cartridges . . . directly to end users, and [] to 'resellers' (including wholesalers, dealers, and distributors)." Maj. Op. at 11. Lexmark's sales of so-called "Return Program Cartridges" were subject to a single-use/no-resale restriction that barred the purchaser from reusing the cartridge, or transferring a used cartridge to anyone besides Lexmark. *See* Maj. Op. at 10 & n.1. Those sales were authorized by the patent holder and transferred title to the purchaser.

Beginning in the 1850s, the Supreme Court recognized that such authorized sales exhaust the patentee's patent rights in the items sold. The patentee's right to exclude under the Patent Act expires with an authorized sale. The question of whether the seller has "authorized" the buyer to use or resell the item is simply irrelevant. The Court's language is unequivocal:

- "[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress. . . . Contracts in relation to it are regulated by the laws of the State, and are subject to State jurisdiction."

  Bloomer v. *McQuewan*, 55 U.S. 539, 549–50 (1852).

- "[W]hen [patentees] have made and vended to others to be used one or more of the things patented, . . . they have parted with their exclusive right. . . . By a valid sale and purchase the patented machine becomes the private individual property of the purchaser, and is no longer specially protected by the laws of the United States, but by the laws of the State in which it is situated. . . . [I]f a person legally acquires a title to that which is the subject of letters patent, . . . he may repair it or improve upon it as he pleases, in the same manner as if dealing with property of any other kind."

  Bloomer v. *Millinger*, 68 U.S. 340, 350–52 (1863).

- "[W]hen [the patented article] rightfully passes from the patentee to the purchaser, [it] ceases to be within the limits of the monopoly."

  Mitchell v. *Hawley*, 83 U.S. 544, 548 (1872).

- "The true ground on which [*McQuewan*, *Millinger*, and *Mitchell*] rest is that the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time. . . . [I]t is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

  Adams v. *Burke*, 84 U.S. 453, 455–56 (1873).

- "[W]hen the patentee . . . sells a machine or instrument whose sole value is in its use, he receives the consideration for its use, and parts with the right to restrict that use . . . . [I]t is open to the use of the purchaser, without further restriction on account of the monopoly of the patentee...."

  Hobbie v. *Jennison*, 149 U.S. 355, 361–62 (1893).

- "[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place."

  Keeler v. *Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895).

- "[B]y virtue of the patent law one who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to

use keep under the patent monopoly a subject to which the monopoly no longer applied."

Bos. Store of Chi. v. *Am. Graphophone Co.*, 246 U.S. 8, 25 (1918).

- "[W]here a patentee makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights."

  United States v. *Gen. Elec. Co.*, 272 U.S. 476, 489 (1926).

- "The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."

  United States v. *Univis Lens Co.*, 316 U.S. 241, 252 (1942).

Thus, by the mid-1850s and continuing for the next century, even before *Quanta*, the Supreme Court repeatedly held that the authorized sale of a patented article exhausted all of the patentee's patent rights in that article, and freed the article from any restrictions on use or sale based on the patent laws. Post-sale restrictions were enforceable only as a matter of state contract law.[1]

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[1] *See, e.g.*, *Keeler*, 157 U.S. at 666 ("Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, *and not as one*

B

The sole Supreme Court case to depart from that principle, *Henry* v. *A.B. Dick* Co., 224 U.S. 1 (1912), was explicitly overruled five years later by *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917). *See Quanta*, 553 U.S. at 625–26. In *Henry* v. *A.B. Dick Co.*, the A.B. Dick Company sold a rotary mimeograph, and affixed to it a restriction stating that it could only be used with stencil paper, ink, and other supplies made by the patentee. 224 U.S. at 11. The Supreme Court in *A.B. Dick* upheld that restriction, and, more broadly, held that

> [t]he property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose. The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted if the sale be unconditional. But if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded.

Id. at 24–25 (emphasis added). The Court reasoned, in part, that the patent owner's "larger right" of excluding all others from using the patent "embraces the lesser of permitting others to use upon such terms as the patentee chooses to prescribe." *Id.* at 35.

The holding of *A.B. Dick*, that a patent owner has the right to impose post-sale restrictions under

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under the inherent meaning and effect of the patent laws.") (emphasis added); *see also Quanta*, 553 U.S. at 637 n.7.

the patent law, provided the purchaser has sufficient "notice that he buys with only a qualified right of use," *id.* at 26, is the same as the panel's holding in *Mallinckrodt* and the majority's holding in this case.

A.B. Dick was quickly overruled in *Motion Picture Patents*, 243 U.S. at 518, which stands as compelling authority against the majority's conclusion.[2] There, the licensee-manufacturer sold film projectors subject to an attached notice restricting their use to unpatented films made by the Motion Pictures Patents Company, and other restrictions "not stated in the notice, but which are to be fixed, after sale." *Id.* at 505–09. When a purchaser used the projector to display films made by another company, the Motion Picture Patents Company sued for infringement. *Id.* at 508. The question was whether the restrictions were enforceable after the sale. The Court rejected the basic rationale of *A.B. Dick* that, since the "patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it," *id.* at 514, and concluded that *A.B. Dick* "must be regarded as over-

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[2] Even before *Motion Picture Patents*, the Court had declined to follow *A.B. Dick*. The Court had held that a packaging notice that set a minimum retail price for a patented tonic, *Bauer & Cie* v. *O'Donnell*, 229 U.S. 1, 8 (1913), and a purported "License Notice" that operated to fix the price at which phonographs could be resold, *Straus* v. *Victor Talking Mach. Co.*, 243 U.S. 490, 500–501 (1917), were not enforceable under the patent laws. In *Straus*, the Court stated that courts "would be perversely blind if they failed to look through such an attempt as [the] 'License Notice' thus plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest." *Id.*

ruled," *id.* at 518. Instead, the Court reaffirmed that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put on it." *Id.* at 516.

The majority attempts to distinguish *Motion Picture Patents*, on the ground that it only "held particular restrictions improper . . . relying on the 1914 Clayton Act," but "did not rule that *all* restrictions on a patentee's sale were ineffective to preserve the patentee's patent-law rights." Maj. Op. at 50. That is not accurate. *Motion Picture Patents* did not leave behind the remnants of *A.B. Dick*—minus tie-ins and resale price maintenance. To the contrary, the Court in *Motion Picture Patents* found that "[t]he patent law furnishes no warrant for" the restrictions imposed by the patent owner. 243 U.S. at 516. The passage of the Clayton Act only "confirmed" the Patent Act holding reached in *Motion Picture Patents*. *Id.* at 517.

In later cases, the Court characterized *Motion Picture Patents* as having broadly settled the ineffectiveness of all post-sale restrictions under the patent law. In *Boston Store of Chicago* v. *American Graphophone Co.*, *Motion Picture Patents* was viewed as "concern[ing] whether the monopoly of the patent law can be extended beyond the scope of that law or, in other words, *applied to articles after they have gone beyond its reach*." 246 U.S. at 26 (emphasis added). The Court stated that *Motion Picture Patents* accordingly settled "the general question of the power of the patentee to sell and yet under the guise of license or otherwise to put restrictions which in substance were repugnant to the rights which necessarily arose from the sale which was made." *Id.* at 24.

Resting on patent exhaustion principles, *Motion Picture Patents* "decided that as *by virtue of the patent law* one who had sold a patented machine and received the price, and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied." *Id.* at 25 (emphasis added).

In *Quanta*, the Court reiterated the broad patent exhaustion rule and left no room for a resurrection of *A.B. Dick*. LG Electronics ("LG") owned system and method patents related to computer technology. *Quanta*, 553 U.S. at 621–22. LG licensed Intel to manufacture microprocessors and chipsets that used the LG patents. *Id.* at 623. The licensing agreement stipulated that no license was given to Intel's customers to combine the licensed Intel products with non-Intel components in ways that practiced the LG patents. *Id.* A separate master agreement required Intel to provide a notice to its customers that they were not licensed to practice the LG patents by combining Intel products with non-Intel products. *Id.* at 623–24. Quanta purchased microprocessors and chipsets covered by the LG patents from Intel but combined them with non-Intel products to manufacture computers. LG filed suit against Quanta for patent infringement. *Id.* at 624.

The Court found that the Intel products embodied the LG patents and that Intel had authority to sell its products to Quanta. *Id.* at 635, 636–37. It then expansively held that "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638. Significantly, *Quanta* described *Motion Picture Patents* as having

"reiterated the rule that 'the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.'" 553 U.S. at 626 (quoting *Motion Picture Patents*, 243 U.S. at 516).

After *Quanta*, the Court confirmed again that the "doctrine of patent exhaustion limits a patentee's right to control what others can do with an article embodying or containing an invention. Under the doctrine, 'the initial authorized sale of a patented item terminates all patent rights to that item.'" *Bowman* v. *Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013) (quoting *Quanta*, 553 U.S. at 625).[3]

The patent exhaustion doctrine, as stated by *Quanta*, admits of no exception. Authorized sales "prevent[] the patent holder from invoking patent law to control postsale use." *Quanta*, 553 U.S. at 638.

Contrary to the majority, *Quanta*'s reference to an "unconditional sale," *id.* at 626, a reference appearing as well in other exhaustion cases, can hardly

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[3] The majority relies on the fact that the Supreme Court in *Quanta* did not expressly overrule *Mallinckrodt*, as urged by both the petitioner and the government. The majority cites no authority for the proposition that the Court's failure to explicitly overrule circuit authority is an implicit endorsement of that authority. Influential commentators have viewed the Supreme Court's decision in *Quanta* as having overruled our decision in *Mallinckrodt*. *See, e.g.*, 12 Phillip A. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶2044, at 300 & 301 n.15 (3d ed. 2012) ("In its *Quanta Computer* decision the Supreme Court reaffirmed a strong version of the first-sale doctrine, striking down more relaxed Federal Circuit precedent. . . . To the extent that *Mallinckrodt* relaxed the first-sale doctrine, it was overruled by *Quanta Computer* . . . .").

be read to contradict the Court's central holding that post-sale restrictions are unenforceable under the patent laws. The language referring to "conditions" imposed on sale or "unconditional" sales is used in these cases in two different senses. On the one hand, there are cases in which such language is used to denote the existence of post-sale restrictions imposed by the patent holder. *A.B. Dick* and *Motion Picture Patents* fall into this category. *A.B. Dick* stated that exhaustion applied only if the sale was "unconditional[]," i.e., free of post-sale restrictions. 224 U.S. at 19. *Motion Picture Patents*, in overruling *A.B. Dick*, rejected the notion that a seller could impose "conditions," i.e., restrictions on post-sale use. 243 U.S. at 514–15. The use of such language in those cases refutes the majority's theory, since *Motion Picture Patents* holds that conditions (i.e., restrictions) are not permissible under the patent laws.

In the few other cases that use the "unconditional sales" language, the reference to an "unconditional" sale is to a sale in which title passes, not to a sale in which no restrictions are imposed.[4] The contemporaneous understanding of "conditional sale" was as a security device, i.e., an "agreement to sell upon a condition to be performed." *Harkness* v. *Russell*, 118 U.S. 663, 665 (1886); *see also Motion Picture Patents*, 243 U.S. at 520–21 (Holmes, J., dissenting) ("[A] conditional sale retaining the title until a future

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[4] *Mitchell* stated that "where the sale is absolute, and without any conditions, the rule is well settled that" the patentee's rights are exhausted. 83 U.S. at 548; *see also Motion Picture Patents*, 243 U.S. at 516; *In re Paper Bag Cases*, 105 U.S. 766, 770–71 (1881) ("The right of the owner of a patented machine, without any conditions attached to his ownership, to continue the use of his machine during an extended term of the patent, is well settled.").

event after delivery has been decided to be lawful again and again by this court.").[5]

That the use of the term "unconditional" in those cases is not referring to a sale without restrictions is crystal clear from *Quanta* itself, where the Court stated that *Motion Picture Patents* "reiterated the rule that 'the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.'" 553 U.S. at 626 (quoting *Motion Picture Patents*, 243 U.S. at 516). In other words, a sale with restrictions could nonetheless be an "unconditional" sale in which title passes, with the restrictions invalid under the patent laws because of exhaustion.

C

The rule articulated in the Supreme Court's cases is consistent with the common law rule against restraints on the use or alienation of chattels, which formed the background of the patent statute. In *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013), the Court noted, in the context of copyright law, that the "'first sale' doctrine is a common law doctrine" traceable to "the common law's refusal to permit restraints on the alienation of chattels." The Court cited Lord Coke's 17th century observation that

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[5] *See also* 1 Grant Gilmore, *Security Interests in Personal Property* § 3.7, at 81 (1965) ("For most lawyers the term ['conditional sale'] came to have a reasonably precise meaning: a purchase money security transaction, subject in most states to statute, in which title to the goods was retained by the seller or his assignee until the full purchase price had been paid, usually in periodic installments.").

> [If] a man be possessed of . . . a horse, or of any other chattel . . . and give or sell his whole interest . . . therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest . . . is out of him, so as he hath no possibilit[y] of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man....

Id. (quoting 1 Edward Coke, *Institutes of the Laws of England* § 360, at 223 (1628)). *Kirtsaeng* concluded that "[a] law that permits a copyright holder to control the resale or other disposition of a chattel once sold is similarly 'against Trade and Traffi[c], and bargaining and contracting.'" 133 S. Ct. at 1363.

So too a rule permitting a patent holder to enact post-sale restraints would be contrary to the general common law. Post-sale restraints would "cast a cloud of uncertainty over every sale," *Tessera, Inc.* v. *Int'l Trade Comm'n*, 646 F.3d 1357, 1370 (Fed. Cir. 2011). The Supreme Court has repeatedly instructed us not to ignore traditional legal principles to fashion rules "unique to patent disputes." *eBay Inc.* v. *MercExchange, L.L.C.*, 547 U.S. 388, 393 (2006); *see also Global-Tech Appliances, Inc.* v. *SEB S.A.*, 131 S. Ct. 2060, 2069 (2011); *MedImmune, Inc.* v. *Genentech, Inc.*, 549 U.S. 118, 132 n.11 (2007). We should decline to do so here. There is no indication in the patent laws that there should be a special exception for patent holders to the general longstanding common law doctrine that promotes free competition in the resale market and certainty in commercial transactions. Allowing the patent holder to impose conditions on the sale of a patented item would indeed largely eviscerate the exhaustion doctrine, by permitting the imposition of all manner of post-sale

restrictions except for tie-ins, price-fixing, and other violations of the patent misuse and antitrust law.

D

The majority's justifications for refusing to follow Supreme Court authority establishing the exhaustion rule misconceive our role as a subordinate court.

First, the majority characterizes the statement of the exhaustion rule in the Supreme Court cases as mere dictum because in those cases there was either no restriction imposed or the restriction would otherwise violate the antitrust laws.[6] But the cases impose no such qualification on the rule announced. The Supreme Court has repeatedly advised the courts of appeals that our task is to follow the rules proclaimed by the Court, and not to attempt to distinguish Supreme Court cases on their facts. *See, e.g.*, *Rivers* v. *Roadway Express, Inc.*, 511 U.S. 298, 312 (1994) ("[O]nce the Court has spoken, it is the duty of other courts to respect that understanding of the governing rule of law."); *Thurston Motor Lines, Inc.* v. *Jordan K. Rand, Ltd.*, 460 U.S. 533, 534–35 (1983) (per curiam) (A court of appeals must not "confus[e] the factual contours of [a Supreme Court decision] for its unmistakable holding" in an effort to reach a "novel interpretation" of that decision.).

Previously we have faithfully adhered to this rule. *See Ariad Pharm., Inc.* v. *Eli Lilly & Co.*, 598 F.3d 1336, 1347 (Fed. Cir. 2010) (en banc) ("As a subordinate federal court, we may not so easily dis-

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[6] *See* Maj. Op. at 51 ("[A]lthough some language in *Univis*, like language in other decisions in the area, can be taken out of context . . . we do not think it appropriate to give broad effect to language in *Univis*, taken out of context, to support an otherwise unjustified conclusion here...").

miss [the Supreme Court's] statements as dicta but are bound to follow them."); *Stone Container Corp.* v. *United States*, 229 F.3d 1345, 1349–50 (Fed. Cir. 2000) ("[W]e do not share the Supreme Court's latitude in disregarding the language in its own prior opinions.").[7] We cannot appropriately depart from it here.

Second, the majority relies on 35 U.S.C. §§ 271(a) and 154(a)(1) to suggest that a broad reading of the exhaustion doctrine is inconsistent with statutory language making an act of infringement, *inter alia*, any use or sale of a patented invention "without authority" of the patent owner, and providing the patent owner with a "right to exclude." Maj. Op. at 19, 22–23. That reliance is misplaced. Patent exhaustion is a limit on the patentee's statutory right to control what purchasers can do with an article embodying or containing a patented invention. *See Bowman*, 133 S. Ct. at 1766 & n.2 (recognizing that patent exhaustion removes restrictions imposed by §§ 271(a) and 154(a)(1)). The focus of patent exhaustion is not

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[7] *See also Nat. Res. Def. Council, Inc.* v. *Nuclear Regulatory Comm'n*, 216 F.3d 1180, 1189 (D.C. Cir. 2000) ("[C]arefully considered language of the Supreme Court, even if technically dictum, generally must be treated as authoritative.") (quotation marks and citation omitted); *Alston* v. *Redman*, 34 F.3d 1237, 1246 (3d Cir. 1994) ("Though this passage.... is essentially dicta... we must consider it with deference, given the High Court's paramount position in our three-tier system of federal courts, and its limited docket.") (quotation marks and citation omitted); *Hendricks Cty. Rural Elec. Membership Corp.* v. *N.L.R.B.*, 627 F.2d 766, 768 n.1 (7th Cir. 1980) ("A dictum in a Supreme Court opinion may be brushed aside by the Supreme Court as dictum when the exact question is later presented, but it cannot be treated lightly by inferior federal courts until disavowed by the Supreme Court.") (citation omitted), *rev'd on other grounds*, 454 U.S. 170 (1981).

whether the *buyer* has been expressly or impliedly authorized to sell or use a product in a certain way after the sale. Instead, it begins and ends with an inquiry of whether the *seller* had authorization to make a sale. The exhaustion doctrine is simply a limit on the scope of the patent monopoly, that is, a limit on the exclusive rights of the patentee. The right to exclude expires (or is "exhausted") by an authorized sale.[8]

Third, the majority claims that giving full sweep to the articulation of the exhaustion doctrine in *Quanta* and other cases would be inconsistent with the Supreme Court's decision in *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 175 (1938), *aff'd on reh'g*, 305 U.S. 124 (1938). The majority asserts that *General Talking Pictures* "held that a patentee can preserve its patent rights by authorizing a manufacturing licensee to make and sell a patented article under an otherwise-proper restriction, including a restriction on the buyer's post-purchase use." Maj. Op. at 42. The majority suggests it would be incongruous if "a patentee cannot preserve its patent rights against uses of a patented article . . . if,

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[8] *See, e.g.*, *Quanta*, 553 U.S. at 636–38 (concluding "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights"); *Univis*, 316 U.S. at 249 ("[T]he authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold."); *Bos. Store of Chi.*, 246 U.S. at 25 (Sale "placed the machine so sold beyond the confines of the patent law . . . ."); *Mitchell*, 83 U.S. at 548 ("[W]hen [the patented article] rightfully passes from the patentee to the purchaser, [it] ceases to be within the limits of the monopoly."); *McQuewan*, 55 U.S. at 549 ("[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly.").

instead of licensing someone else to make and sell the article, it chooses to make and sell the article itself." *Id.* The majority urges there is "no sound legal basis" for distinguishing restrictions on a purchaser from restrictions on a licensee. *Id.* at 8.[9]

In *General Talking Pictures*, a patent owner granted a non-exclusive license to a licensee to manufacture and sell patented sound amplifier products. 304 U.S. at 180. The license contained a field-of-use restriction: the licensee could only make and sell amplifiers for non-commercial use. *Id.* Nonetheless, in violation of the license terms, the licensee made and sold the products knowing that they were to be used in a commercial theater, and the buyer had actual knowledge that the licensee lacked authority to make such a sale. *Id.* The Court stated the "controlling facts" as, "[t]he patent owner did not sell to petitioner the amplifiers in question or authorize [the licensee] to sell them or any amplifiers for use in theaters or any other commercial use. The sales made by the [licensee] were outside the scope of its license and not under the patent." *Id.* at 180. There had been no authorized first sale, for the licensee "could not convey to [the ultimate purchaser] what both knew it was not authorized to sell," and thus both were liable for infringement. *Id.* at 181–82.

There is nothing anomalous about *General Talking Pictures*. The Supreme Court has clearly distinguished between sales and licenses, holding that while a patentee cannot impose post-sale restrictions

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[9] *See also* Maj. Op. at 25 ("no sound reason"); *id.* at 27 ("formalistic distinctions of no economic consequence") (quotation marks and citation omitted); *id.* at 39 ("no good reason"); *id.* at 42 ("no basis in the policy of the patent statute"); *id.* at 43 ("unjustifiably formalistic").

on an authorized sale, it can impose restrictions on a licensee. *See Gen. Elec.*, 272 U.S. at 489–90; *McQuewan*, 55 U.S. at 549–50; 6A Donald S. Chisum, *Chisum on Patents* § 19.04[3][h] (2015).

That the exhaustion of rights applies only to sales and not licenses was clear in *Kirtsaeng*, which stated that under the copyright "first sale" doctrine, 17 U.S.C. § 109(a), because many movie theater owners "were lessees, not owners, of their copies [of copyrighted films], . . . they (like bailees and other lessees) cannot take advantage of the 'first sale' doctrine." 133 S. Ct. at 1361.[10]

Thus, in *Quanta*, the Court stated that *General Talking Pictures* "held that exhaustion did not apply because the manufacturer [licensee] had no authority to sell the amplifiers for commercial use." 553 U.S. at 636. But *Quanta* held that where the licensee does have authority to sell, the authorized sale results in exhaustion. In *Quanta*, Intel, a licensee, did have authority to make sales to purchasers, and "exhaustion turns only on Intel's own license to sell products practicing the [patentee's patents]." *Id.* at 637.[11]

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[10] Similarly, the Court explained in *Mitchell* that purchasers "who buy goods from one not the owner, and who does not lawfully represent the owner, however innocent they may be, obtain no property whatever in the goods, as no one can convey... any better title than he owns, unless the sale is made in market overt, or under circumstances which show that the seller lawfully represented the owner." 83 U.S. at 550.

[11] The Supreme Court has never even decided that an *authorized* sale by a licensee with a limited license does not exhaust the patentee's patent rights in the item sold. That question was reserved by the Court in *General Talking Pictures*. 305 U.S. at 127 ("Nor have we occasion to consider the effect of a 'licensee's notice' which purports to restrict the use of articles lawfully sold.").

The majority makes much of the fact that the sale from the licensee to the ultimate purchaser in *General Talking Pictures* did not result in exhaustion. *See* Maj. Op. at 42, 48–49. But this is not surprising. The licensee infringed the patent by its manufacture and sale of the item. The sale of the amplifier by the infringer to the ultimate purchaser was the antithesis of an authorized sale, and it is hardly surprising that an infringer's unauthorized sale did not result in exhaustion.

In any event, even if there were some tension between the Supreme Court's broad statement of the exhaustion rule and *General Talking Pictures*, it is not our task to ignore Supreme Court rulings as "unjustifi[ed]" or "[un]sound" because they are purportedly inconsistent with other Supreme Court cases. The distinction between restrictions on sales (impermissible) and restrictions on licensees (permissible) exists in the Court's precedent, and it is not for us to decide if it is a sound distinction. "If a precedent of th[e] Court has direct application in a case, yet appears to rest on reasons rejected in some other line of decisions, the Court of Appeals should follow the case which directly controls, leaving to th[e] Court the prerogative of overruling its own decisions." *Rodriguez de Quijas* v. *Shearson/Am. Express, Inc.*, 490 U.S. 477, 484 (1989); *see also State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997) (Even if a Supreme Court precedent contains many "infirmities" and rests upon "wobbly, moth-eaten foundations," it remains the "Court's prerogative alone to overrule one of its precedents.").

Finally, the majority proposes that we should somehow sustain the restriction here because it may be pro-competitive. Exhaustion does not turn on whether a particular post-sale restriction is desirable

or undesirable, pro-competitive or anti-competitive, but whether the sale was authorized and the item has passed beyond the scope of the patent monopoly. In any case, the Court has suggested that a prohibition on resale is "manifestly anticompetitive." *Kirtsaeng*, 133 S. Ct. at 1363.[12]

There is, in sum, no colorable basis for the majority's failure to follow the exhaustion rule for domestic

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[12] *Id.* (stating that "competition, including freedom to resell, can work to the advantage of the consumer" and noting that "restraints with 'manifestly anticompetitive effects' are *per se* illegal") (quoting *Leegin Creative Leather Prods., Inc.* v. *PSKS, Inc.*, 551 U.S. 877, 886 (2007)).

Even on its own terms, the majority's view that Lexmark's post-sale restrictions can be pro-competitive is questionable. The majority posits that Lexmark's single-use/no-resale restriction may not be inconsistent with the antitrust laws because "non-price vertical restraints are to be judged by a rule of reason." Maj. Op. at 57. But Lexmark's single-use/no-resale restriction imposed on the defendants is not a vertical restraint. "Restraints imposed by agreement between competitors have traditionally been denominated as horizontal restraints, and those imposed by agreement between firms at different levels of distribution as vertical restraints." *Bus. Elecs. Corp.* v. *Sharp Elecs. Corp.*, 485 U.S. 717, 730 (1988). A restriction on the defendants' resale is not a restraint on "firms at different levels of distribution," as between a manufacturer and a dealer. The restraint is applied to competitors in the sale of Lexmark ink cartridges. Reconditioned durable products compete with new products in the same market. *See United States* v. *Aluminum Co. of Am.*, 148 F.2d 416, 424–25 (2d Cir. 1945) (Hand, J.). And horizontal restraints of trade are ordinarily *per se* unlawful under the antitrust laws. *See Nat'l Collegiate Athletic Ass'n* v. *Bd. of Regents of Univ. of Okla.*, 468 U.S. 85, 100 (1984); *see also* 2 Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley, & Christopher R. Leslie, *IP and Antitrust* § 30.2, at 30-2 (2d ed. Supp. 2010) ("A restraint is 'horizontal' when at least two of the relevant participants are (1) actual rivals or (2) would or could be actual rivals but for the restraint.").

sales as articulated by the Court in *Quanta* and numerous other cases.

II. FOREIGN EXHAUSTION

The second issue here concerns foreign exhaustion. Lexmark sold patented ink cartridges outside the United States to foreign purchasers. As the majority recognizes, "Lexmark made the foreign sales without communicating a reservation of U.S. patent rights." Maj. Op. at 59. These were, in other words, authorized sales by the holder of United States patent rights, and the sales of so-called Regular Cartridges did not contain "any sale terms restricting reuse or resale." Maj. Op. at 10. If those latter sales had been made in the United States, even under the majority's cramped view of exhaustion, there is no question that the sales would have exhausted Lexmark's domestic patent rights. The issue is whether the foreign location of the sale should lead to a different result, as we previously held in *Jazz Photo*, 264 F.3d at 1111.

Like the majority I would retain *Jazz Photo* insofar as it holds that a mere foreign sale does not in all circumstances lead to exhaustion of United States patent rights. But the government argues, and I agree, that the foreign sale should result in exhaustion if the authorized seller does not explicitly reserve its United States patent rights.

A

Let us first consider the centerpiece of the majority's holding that there is a doctrinal blanket ban on foreign exhaustion, namely the Supreme Court's decision in *Boesch* v. *Graff*, 133 U.S. 697 (1890). *Boesch* announced no such blanket ban. It did not even involve an authorized sale by the holder of U.S. patent

rights but rather a sale by a third party under a foreign law's prior use exception.

In that case, a seller in Germany sold patented lamp burners to two individuals, Boesch and Bauer. *Id.* at 701. The seller was not the U.S. patent holder, or a German patent holder, nor was he even a licensee. *Id.* Under German law, the seller could make and sell the burners because he had made preparations to manufacture them prior to the filing of the German patent by the holder of the U.S. patent rights. *Id.* When Boesch and Bauer imported and sold the lamp burners in the United States, the American assignees sued for infringement. *Id.* at 698. The Court affirmed the holding of infringement, finding that Boesch's and Bauer's sales were "in defiance of the rights [of] patentees under a United States patent. . . . The sale of articles in the United States under a United States patent cannot be controlled by foreign [(i.e., German)] laws." *Id.* at 703.

Thus *Boesch* does not apply here because the foreign sales were made by Lexmark—the U.S. patent rights holder—itself. The accused infringer does not rely on foreign law as the source of its authority but the doctrine of exhaustion resulting from an authorized sale by a U.S. rights holder.

Just as *Boesch* is inapposite, so too is the doctrine of extraterritoriality, reflected in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972); *Dowagiac Manufacturing Co.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641 (1915); and *Brown* v. *Duchesne*, 60 U.S. 183 (1856). *See* Maj. Op. at 79–80. The question here is not whether the manufacture or use of a patented product wholly outside of the United States is patent infringement under U.S. law, *see Deepsouth*, 406 U.S. at 527, or whether foreign law

creates a defense to infringement in the United States, *see Boesch*, 133 U.S. at 703. Rather, the question is whether United States patent law recognizes exhaustion that occurs abroad from an authorized foreign sale by the holder of the U.S. patent rights and without reservation of U.S. rights.[13] The majority itself admits that foreign activity, such as express or implied license, can have an impact on the rights of a United States patent owner. *See* Maj. Op. at 9.

B

Strikingly, every one of the lower court decisions before *Jazz Photo* applied exactly the rule for which the government argues. When the sale was made by an entity not holding U.S. patent rights, as in *Boesch*, or when the authorized foreign seller clearly reserved U.S. rights, there was no exhaustion. *See Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 934–35 (D.N.J. 1983) (foreign sale not authorized by U.S. exclusive licensee); *Griffin* v. *Keystone Mushroom Farm, Inc.*,

453 F. Supp. 1283, 1285, 1287 (E.D. Pa. 1978) (foreign sale not authorized by U.S. exclusive licensee); *Daimler Mfg. Co.* v. *Conklin*, 170 F. 70, 70, 72–73 (2d Cir. 1909) (foreign sale was not authorized by U.S. patent holder); *see also Dickerson* v. *Tinling*, 84 F. 192, 193 (8th Cir. 1897) (foreign sale made with prohibition on import into and sale within United States); *Dickerson* v. *Matheson*, 57 F. 524, 525–26 (2d Cir. 1893) (foreign sale with prohibition on import into United States).

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[13] Foreign law cannot affect, of course, the significance of the reservation of U.S. patent rights. *See Boesch*, 133 U.S. at 703.

But the cases uniformly recognize or assume that where the foreign sale was made by a seller holding U.S. patent rights without a contractual reservation of U.S. rights, exhaustion occurred as a result of an authorized foreign sale. In *Holiday* v. *Mattheson*, 24 F. 185, 185 (C.C.S.D.N.Y. 1885), the U.S. patentee sold its patented article in England "without restriction or conditions" to a first purchaser. A second purchaser obtained the article from the first, and brought the article back to the United States. *Id.* The circuit court affirmed the trial court's judgment of noninfringement, stating, "[w]hen the owner sells an article without any reservation respecting its use . . . the purchaser acquires the whole right of the vendor in the thing sold . . . . The presumption arising from such a sale is that the vendor intends to part with all his rights in the thing sold." *Id.* In *Dickerson* v. *Matheson*, in 1893, the Second Circuit concluded that "[a] purchaser in a foreign country, of an article patented in that country and also in the United States, from the owner of each patent, or from a licensee under each patent, who purchases without any restrictions . . . acquires an unrestricted ownership in the article, and can use or sell it in this country." 57 F. at 527. Similarly in *Dickerson* v. *Tinling*, in 1897, the Eighth Circuit "[c]onced[ed,] [but did not decide,] that one who buys a patented article without restriction in a foreign country from the owner of the United States patent has the right to use and vend it in this country." 84 F. at 195. The Second Circuit also found foreign exhaustion in *Curtiss Aeroplane & Motor Corp.* v. *United Aircraft Engineering Corp.*, 266 F. 71 (2d Cir. 1920). There, the U.S. patent owner licensed a corporation to build airplanes in Canada with "no restriction or limitation as to time, or place, or manner of use of the aeroplanes." *Id.* at 80. A buyer who purchased the airplanes in Canada and

then brought them back to the United States was not liable for infringement. *See id.* In *Sanofi, S.A.* v. *Med-Tech Veterinarian Products, Inc.*, in 1983, the district court found exhaustion because even "assuming that Sanofi had a right to enjoin the reselling of the goods in [the United States], it waived that right by not placing any written restrictions upon the purchaser at the time of sale." 565 F. Supp. at 938.

This uniform approach, existing well before the 1952 Patent Act and continuing thereafter, strongly supports the government's position. There is indeed a strong argument that the 1952 Act should be read as adopting these earlier cases. *See SCA Hygiene Prods. Aktiebolag* v. *First Quality Baby Prods., LLC*, 807 F.3d 1311, 1321 (Fed. Cir. 2015) (en banc) (well-established doctrine of laches codified by 1952 Patent Act).

C

So too congressional legislation described by the majority, far from contradicting the government's approach, confirms it. Each bilateral trade agreement cited by the majority requires preservation of U.S. patent rights only where the U.S. rights have been expressly reserved.[14]

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[14] Even if these trade agreements were to the contrary, the acts implementing each agreement make clear that they cannot override U.S. patent law. *See* United States-Morocco Free Trade Agreement Implementation Act, Pub. L. No. 108-302, § 102, 118 Stat. 1103 (2004) ("No provision of the Agreement, nor the application of any such provision to any person or circumstance, which is inconsistent with any law of the United States shall have effect. . . . Nothing in this Act shall be construed . . . to amend or modify any law of the United States."); United States-Australia Free Trade Agreement Implementation Act, Pub. L. No. 108-206, § 102, 118 Stat. 919 (2004) ("No provision of the

This is illustrated by the U.S.-Australia agreement, where the patentee's domestic rights must be preserved "where the patentee has placed restrictions on importation by contract or other means." United States-Australia Free Trade Agreement, Aus.-U.S., art. 17.9.4, May 18, 2004, KAV 6422 (2005). Likewise the U.S.-Singapore agreement requires recognition of an action to prevent or redress the unauthorized procurement of a patented pharmaceutical product, including where it was first sold abroad, but only where someone "knows or has reason to know that such product is or has been distributed in breach of a contract between the right holder and a licensee." United States-Singapore Free Trade Agreement, Sing.-U.S., art. 16.7.2, May 6, 2003, 42 I.L.M. 1026 (2003). And the U.S.-Morocco agreement permits the United States to limit foreign exhaustion, as it did previously with Australia and Singapore, "to cases where the patent owner has placed restrictions on importation by contract or other means." United States-Morocco Free Trade Agreement, Morocco-U.S., art. 15.9.4, n.10, June 15, 2004, 44 I.L.M. 544 (2005).

D

This brings us to the Supreme Court's decision in *Kirtsaeng* v. *John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). I agree with the majority that *Kirtsaeng* does not compel identity between the "first sale" doctrine in copyright and patent exhaustion, due to the differences between copyright and patent law.

Agreement, nor the application of any such provision to any person or circumstance, which is inconsistent with any law of the United States shall have effect."); United States-Singapore Free Trade Agreement Implementation Act, Pub. L. No. 108-78, § 102, 117 Stat. 948 (2003) (same).

But unlike the majority, I think that *Kirtsaeng* provides significant guidance and cannot be dismissed as simply a copyright case, or as limited to the "first sale" provision of the Copyright Act.[15] The policies that animated *Kirtsaeng* are in large part applicable to patent exhaustion. The Court emphasized the importance of leaving purchasers free to resell goods to enhance competition in the marketplace. *Id.* at 1363. The Court found that the "first sale" doctrine "frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trade, readily movable goods." *Id.* The Court also found significant the plea of technology companies, who informed the Court that "automobiles, microwaves, calculators, mobile phones, tablets, and personal computers contain copyrightable software programs or packaging." *Id.* at 1365 (internal quotation marks omitted). "A geographical interpretation [of the 'first sale' doctrine] would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software. . . . Without that permission a foreign car owner could not sell his or her used car." *Id.*

Those commercial consequences are equally applicable to patent exhaustion. Automobiles, microwaves, calculators, mobile phones, tablets, and personal computers also contain patented components. To paraphrase, "a geographical interpretation [of patent exhaustion] would prevent the resale of, say, a car, without the permission of the holder of each [pa-

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[15] *Kirtsaeng* recognized that the "first sale" doctrine "played an important role in American copyright law" even before its first codification by the Copyright Act of 1909, § 41, 35 Stat. 1084. 133 S. Ct. at 1363 (citing *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908)).

tent] on each piece of [patented] automobile [software or hardware]. . . . Without that permission a foreign car owner could not sell his or her used car."

Refusing to find presumptive exhaustion by foreign sales would have serious adverse consequences in the patent area, just as in the area of copyright. Technology companies have echoed the concerns in *Kirtsaeng* and report that "modern devices include components from dozens—if not hundreds—of suppliers." Brief for LG Electronics, Inc., Dell Inc., Google Inc., Intel Inc., *et al.* as *Amici Curiae* 2. The majority's rule would require a manufacturer to "trace the patent rights of *every* component it purchases and then negotiate appropriate license arrangements with the component manufacturer (as well as any sub-component manufacturer)," and ultimately "it is consumers who suffer most directly through higher prices." *Id.* at 5, 8. A major retailer informs us that it "often sells patented products that, although genuine, were not purchased directly from the patent holder" and that "[s]ome of those products were first sold outside of the United States." Brief for Costco Wholesale Corp. *et al.* as *Amici Curiae* at 1. A domestic-only patent exhaustion rule would seriously impair international trade.

Kirtsaeng emphasized the "ever-growing importance of foreign trade to America," 133 S. Ct. at 1367, which includes trade not just in artwork and books but also automobiles, appliances, mobile phones, tablets, and personal computers. The Court concluded:

> [T]he fact that harm has proved limited so far may simply reflect the reluctance of copyright holders so far to assert geographically based resale rights. They may decide differ-

> ently if the law is clarified in their favor. Regardless, a copyright law that can work in practice only if unenforced is not a sound copyright law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely unenforced, would breed disrespect for copyright law itself.

Id. at 1366. So too with patent law.

E

Despite these significant policy considerations favoring foreign exhaustion for both copyright and patent, there are significant differences between copyright and patent law that cut the other way. The premise of exhaustion is that the rights holder has been compensated for its efforts. *See Univis*, 316 U.S. at 251 ("The reward he was demanded and received is for the article and the invention which it embodies . . . . He has thus parted with his right to assert the patent monopoly with respect to it . . . ."). In the area of copyright, given the uniform international protection of copyrights, it is reasonable to assume that the rights holder will receive compensation for a foreign sale. But patent law is different. It is not uniform from country to country. Indeed, there are typically significant differences from country to country. Many countries offer no realistic protection or very little protection for items patented under U.S. law. In other words, there is reason to doubt that the rights holder has been fully compensated for a foreign sale. This suggests an accommodation between the interests of the rights holder and the unsuspecting buyer must be found.

Even the majority recognizes the need for such an accommodation. The majority acknowledges that the law should accommodate the potential of "unin-

tended infringement by buyers of goods in foreign countries who bring them into the United States," but believes that problem could be solved by the availability of an express or a vague implied license defense. *See* Maj. Op. at 93, 98. That defense provides little comfort, however, because it places the burden on the purchaser to obtain a statement from each patentee of a patented component in a product that it has permission to import the component into the United States, or else prove in court that the circumstances of each patentee's sale of its component to the manufacturer constituted an implied license to import into the United States.

In my view, the necessary accommodation between the interests of the rights holder and the unsuspecting buyer can only be achieved by the government's proposal to put the burden on the U.S. rights holder to provide notice of a reservation of U.S. rights to the purchaser, an approach supported by the earlier lower court decisions and legislative action.

In other words, the country-to-country differences in patent laws, and the different economic choices patentees must make as a result, suggest that patentees should be able to reserve their U.S. patent rights when making or authorizing foreign sales.[16] But *Kirtsaeng*'s policy concerns indicate that that right should not extend to situations where the

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[16] There is significant uniformity and reciprocity in international copyright law, *see Kirtsaeng*, 133 S. Ct. at 1359–60 (observing that American copyright laws protect "works 'first published' in any one of the nearly 180 nations that have signed a copyright treaty with the United States"), but as the majority describes, the availability and scope of patent protection differ from country to country. *See* Maj. Op. at 73–76.

patentee is silent or unclear. If a patentee wishes to reserve its U.S. rights, it should be required to do so unmistakably. The patentee is in a better position to reserve its rights than the purchaser is to inquire into any reservation. A rule requiring reservation would protect both the interests of the authorized seller and the unsuspecting buyer.

* * * * *

In conclusion, I would overrule our decision in *Mallinckrodt* as inconsistent with governing Supreme Court authority and overrule *Jazz Photo* to the extent that it imposes a blanket ban on foreign exhaustion. I would recognize foreign exhaustion where the U.S. rights holder has not notified the buyer of its retention of the U.S. patent rights. I respectfully dissent from the majority's contrary holdings.

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

LEXMARK INTERNATIONAL, INC.,
Plaintiff-Cross-Appellant

v.

IMPRESSION PRODUCTS, INC.,
Defendant-Appellant

QUALITY CARTRIDGES, INC., JOHN DOES, 1-20, BLUE TRADING LLC, EXPRINT INTERNATIONAL, INC., LD PRODUCTS, INC., PRINTRONIC CORPORATION, TESEN DEVELOPMENT (HONG KONG) CO. LTD., BENIGNO ADEVA AND HIS COMPANIES,
Defendants

2014-1617, 2014-1619

Appeals from the United States District Court for the Southern District of Ohio in No. 1:10-cv-00564-MRB, Judge Michael R. Barrett.

SUA SPONTE HEARING EN BANC

Before PROST, *Chief Judge*, NEWMAN, LOURIE, DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO, CHEN, and HUGHES, *Circuit Judges*.

PER CURIAM.

ORDER

This case was argued before a panel of three judges on March 6, 2015. The panel sua sponte requested a poll on whether to consider this case en banc in the first instance. A poll was conducted and a majority of the judges who are in regular active service voted for sua sponte en banc consideration.

Accordingly,

IT IS ORDERED THAT:

(1) The court sua sponte orders that this case be heard en banc under 28 U.S.C. § 46 and FED. R. APP. P. 35(a). The court en banc shall consist of all circuit judges in regular active service who are not recused or disqualified.

(2) The parties are requested to file new briefs. The briefs should address the following issues:

(a) The case involves certain sales, made abroad, of articles patented in the United States. In light of *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2012), should this court overrule *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion.

(b) The case involves (i) sales of patented articles to end users under a restriction that they use the articles once and then return them and (ii) sales of the same patented articles to resellers under a restriction that resales take place under

> the single-use-and-return restriction. Do any of those sales give rise to patent exhaustion? In light of *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), should this court overrule *Mallinckrodt, Inc. v. Medi-part, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), to the extent it ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion?

(3) This appeal will be heard en banc on the basis of the additional briefing ordered herein, and oral argument. An original and thirty copies of new en banc briefs shall be filed, and two copies of each en banc brief shall be served on opposing counsel. Impression Products, Inc.'s en banc brief is due 45 days from the date of this order. Lexmark International, Inc.'s en banc response brief is due within 30 days of service of Impression Products, Inc.'s en banc brief, and the reply brief within 15 days of service of the response brief. Briefs shall adhere to the type-volume limitations set forth in Federal Rule of Appellate Procedure 32 and Federal Circuit Rule 32.

(4) Briefing should be limited to the issues set forth above.

(5) With respect to the Joint Motion for Entry of Stipulated Order Regarding Supplementations of the Record (A2554-66) ("stipulation"), it is the court's understanding that any claims to the stipulation's confidentiality are waived. *See* ECF Nos. 76, 78. Therefore, the court orders that the parties file a copy of the stipulation with the court within 10 days of this order. The court further orders that all exhib-

its referenced in the stipulation be filed with the court within 10 days. Any redactions to the exhibits must be in compliance with Federal Circuit Rule 28, and limited in nature. If any part of any of the exhibits are marked as confidential, the parties are ordered to show cause for each redaction, to be filed simultaneously with the filing of the exhibits.

(6) The court invites the United States Department of Justice to file a brief expressing the views of the United States as amicus curiae. Other briefs of amici curiae will be entertained, and any such amicus briefs may be filed without consent and leave of court but otherwise must comply with Federal Rule of Appellate Procedure 29 and Federal Circuit Rule 29.

(7) Oral argument will be held at a time and date to be announced later.

FOR THE COURT

April 14, 2015
Date

/s/ Daniel E. O'Toole
Daniel E. O'Toole
Clerk of Court

APPENDIX C

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
CINCINNATI DIVISION

LEXMARK INTERNATIONAL, INC.
Plaintiff,
v.
INK TECHNOLOGIES PRINTER SUPPLIES, LLC, ET AL.
Defendants.
Civil Action No.1: 10-CV-564
Judge Michael R. Barrett

OPINION AND ORDER

This matter is before the Court on Defendant Impression Products, Inc.'s Second Motion to Dismiss. (Doc. 395). Plaintiff Lexmark International, Inc. has filed a response in opposition (Doc. 431), and Defendant Impression Products, Inc. has filed a reply (Doc. 434). Plaintiff Lexmark International, Inc. also has filed a surreply (Doc. 440-1), and Defendant Impression Products, Inc. has filed a response to the surreply (Doc. 450).[1] This matter is now ripe for review.

I. BACKGROUND

This case concerns the alleged infringement of Plaintiff Lexmark International, Inc.'s ("Lexmark") patented toner cartridges. Lexmark contends that the infringement includes cartridges offered under its Return Program, although the allegations in the

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[1] The Court previously granted the motion for leave to file a surreply, deeming the surreply and the opposition filed. (*See* Doc. 440-1; Doc. 450).

Second Amended Complaint do not specifically identify the Return Program cartridges as being at issue.

In its opposition brief, Lexmark claims that it offers customers two options when purchasing a cartridge: (1) a cartridge subject to a combination single-use patent and contract license (a "Return Program cartridge," previously referred to as a "Prebate cartridge"), or (2) a regular cartridge without any restrictions on its use. According to Lexmark, the purchasers of the Return Program cartridge receive an up-front discount on the purchase price of the cartridge in exchange for agreeing to use the cartridge only once, and to return the empty cartridge to Lexmark for remanufacturing or recycling.

Instead of focusing on the lack of specific allegations in the Second Amended Complaint, Defendant Impression Products, Inc. ("Impression Products") seeks dismissal of the claims on the basis that the Return Program is invalid under patent law.

II. LEGAL STANDARD

In reviewing a motion to dismiss for failure to state a claim, this Court must "construe the complaint in the light most favorable to the plaintiff, accept its allegations as true, and draw all reasonable inferences in favor of the plaintiff." *Bassett* v. *Nat'l Collegiate Athletic Ass'n*, 528 F.3d 426, 430 (6th Cir. 2008) (quoting *Directv, Inc.* v. *Treesh*, 487 F.3d 471, 476 (6th Cir. 2007)). "[T]o survive a motion to dismiss[,] a complaint must contain (1) 'enough facts to state a claim to relief that is plausible,' (2) more than 'a formulaic recitation of a cause of action's elements,' and (3) allegations that suggest a 'right to relief above a speculative level.'" *Tackett* v. *M&G Polymers, USA, LLC*, 561 F.3d 478, 488 (6th Cir. 2009)

(quoting *Bell Atlantic Corp.* v. *Twombly*, 550 U.S. 544, 127 S. Ct. 1955, 1965, 1974, 167 L. Ed. 2d 929 (2007)). A claim has facial plausibility when the pleaded factual content allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged. *Ashcroft* v. *Iqbal*, 556 U.S. 662, 663, 129 S. Ct. 1937, 173 L. Ed. 2d 868 (2009). Although the plausibility standard is not equivalent to a "'probability requirement,' . . . it asks for more than a sheer possibility that a defendant has acted unlawfully." *Id.* at 678 (quoting *Twombly*, 550 U.S. at 556).

III. PARTIES' ARGUMENTS

Impression Products contends that the Return Program is invalid under patent law. In support, it relies upon *Static Control Components, Inc.* v. *Lexmark International, Inc.*, 615 F. Supp. 2d 575 (E.D. Ky. Mar. 31, 2009) ("*Static Control II*"), where the Eastern District of Kentucky reversed its prior decision, holding that the Supreme Court's decision in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008), now required it to find that Lexmark's Return Program (then known as the Prebate Program) is invalid. Impression Products contends that the Court should follow that decision.

In response, Lexmark contends that *Static Control II* was erroneously decided because *Quanta*, 553 U.S. 617, did not determine that all post-sale restrictions were invalid. Lexmark contends that its single-use licenses granted to consumers under the Return Program are enforceable, relying on multiple cases including *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

In its reply, Impression Products argues that Lexmark is attempting to enforce a single-use restriction intended solely for the purpose of preventing competition, and it does not indicate that the consuming public is ever made aware of the fact that purchasing products are subject to a single-use restriction. *Static Control II* is the only decision post-*Quanta* to consider the validity of the Return Program, and in that case, the district court found the Return Program invalid. Impression Products claims that all of the cases relied upon by Lexmark are distinguishable and do not make the Return Program valid and enforceable.

Lexmark argues in its surreply that Impression Products concedes that *Mallinckrodt*, 976 F.2d 700, controls in regards to use-based restrictions, that there is no Federal Circuit precedent indicating *Mallinckrodt* was overruled, that Impression Products improperly relies on matters outside the pleadings, and that Impression Products improperly speculates as to the reasons Lexmark implemented its Return Program.

Impression Products argues in its opposition to the surreply that *Mallinckrodt*, 976 F.2d 700, does not stand for the proposition that any and all post-sale restrictions are legal and enforceable. It argues that Lexmark's Return Program is plainly implemented for improper purposes.

IV. ANALYSIS

The issue presented is whether the Return Program is invalid as a matter of law. Having considered the relevant caselaw and the briefings of the parties, the Court finds that Lexmark's patent infringement claims are barred as a matter of law by

the doctrine of patent exhaustion and must be dismissed.

The issue of patent exhaustion in regards to conditional sales and licenses is not a new one. Courts have been grappling with the issue since as the mid-19th Century when the Supreme Court rendered its decision on patent exhaustion in *Bloomer* v. *McQuewan*, 55 U.S. 539, 549, 14 L. Ed. 532 (1853). The question before the Supreme Court was whether purchasers of licenses to sell or use the planning machines for the duration of the original patent term could continue to use the licenses through the extended term. *Id.* at 548. The Supreme Court held that the extension of the patent term did not affect the rights already secured by purchasers who bought the item for use "in the ordinary pursuits of life." *Id.* at 549; *see also Quanta*, 553 U.S. at 625. In reaching that decision, the Supreme Court recognized the distinction between purchasers of the right to manufacture and sell patents articles and end users of those articles. It explained:

> The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is that he obtains by the patent. And when he sells the exclusive privilege of making or vending it for use in a particular place, the purchaser buys a portion of the franchise which the patent confers. He obtains a share in the monopoly, and that monopoly is derived from, and exercised under, the protection of the United States. And the interest he acquires, necessarily terminates at the time limited for its continuance by the

> law which created it. The patentee cannot sell it for a longer time. And the purchaser buys with reference to that period; the time for which exclusive privilege is to endure being one of the chief elements of its value. He therefore has no just claim to share in a further monopoly subsequently acquired by the patentee. He does not purchase or pay for it.
>
> But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress. And if his right to the implement or machine is infringed, he must seek redress in the courts of the State, according to the laws of the State and not in the courts of the United States, nor under the law of Congress granting the patent. The implement or machine becomes his private, individual property, not protected by the laws of the United States, but by the laws of the State in which it is situated.

McQuewan, 55 U.S. at 549-50.

Numerous decisions concerning patent exhaustion in relation to sales and licenses have followed

McQuewan. Rather than revisiting every one of those relevant opinions here, the Court briefly summarizes only the most relevant of the cases relied upon by the parties in their briefings.

The first post-*McQuewan* case to consider is *General Talking Pictures Corporation* v. *Western Electric Company*, 304 U.S. 175, 58 S. Ct. 849, 82 L. Ed. 1273 (1938). In that case, a patent owner licensed another company the right to manufacture and sell patented sound amplifiers only for private, non-commercial use. *Id.* The licensee, however, knowingly sold the amplifiers to a commercial user, who also was aware that the sale was outside the scope of the license. *Id.* at 180. The Supreme Court explained that patentees may restrict their licensees to certain uses of licensed technology as long as the restrictions do not "extend the scope of the monopoly." *Id.* at 181. Given that the licensee sold the patented product in violations of the field-of-use restriction, the sale was unauthorized and did not result in patent exhaustion. *Id.* Both the licensee and the purchasers were thus found to be bound by the restriction. *Id.* at 180-81.

Although multiple cases followed *General Talking Pictures*, the Court moves forward in time to the decision in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, 976 F.2d 700, 701 (Fed. Cir. 1992), which is central to the parties' dispute. There, the Federal Circuit held that a "single use only" restriction, which accompanied the first sale of a device from the patent owner directly to hospitals and that required disposal of the device after the first use, was a valid and enforceable license. *Id.* It reasoned that generally, "any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to

manufacture or use or sell the [patented] article, will be upheld by the courts." *Id.* at 703. In reaching that decision, the circuit court considered multiple prior cases. *Id.* at 704-07. Based upon the totality of those cases, the circuit court determined the fact that "a restrictive license is legal seems clear." *Id.* at 704 (citing *Mitchell* v. *Hawley*, 83 U.S. 544, 21 L. Ed. 322). "[T]he patentee may grant a license upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." *Id.* at 704-05 (internal quotations omitted). "Unless the condition violates some other law or policy (in the patent field, notably the misuse or antitrust law), private parties retain the freedom to contract concerning conditions of sale." *Id.* at 708 (internal citation omitted). Thus, according to the Federal Circuit, if the restriction is found to "be reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims, that ends the inquiry." *Id.* at 708. If the inquiry leads "to the conclusion that there are anticompetitive effects extending beyond the patentee's statutory right to exclude, these effects do not automatically impeach the restriction" as anticompetitive effects that are not *per se* violations of law "are reviewed in accordance with the rule of reason." *Id.*[2]

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[2] This is the concept of patent misuse. The *Mallinckrodt* court noted that the defense requires a factual determination as to whether the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market. 976 F.2d at 706 (citing *Windsurfing Intl* v. *AMF, Inc.*, 782 F.2d 995 (Fed. Cir.), *cert. denied*, 477 U.S. 905, 106 S. Ct. 3275, 91 L. Ed. 2d 565 (1986)).

The Ninth Circuit's decision in *Arizona Cartridge Remanufacturers Association Inc.* v. *Lexmark International, Inc.*, 421 F.3d 981 (9th Cir. 2005) that followed *Mallinckrodt* specifically concerned Lexmark's Prebate Program. In that case, the circuit court considered whether Lexmark's advertising of its Prebate Program under which it gave purchasers an up-front discount in exchange for an agreement to return the empty cartridge to Lexmark for remanufacturing mislead customers into thinking the post-sale restriction was enforceable. *Id.* The plaintiff did not challenge the district court's holding that Lexmark's patent rights were not exhausted because it "could condition the use of its patented Prebate cartridges by consumers under the principle articulated by the Federal Circuit in *Mallinckrodt, Inc.* v. *Medipart, Inc.*, which held that a restriction on a patented good is permissible as long as it is 'found to be reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims.'" *Arizona Cartridge*, 421 F.3d at 986 (quoting *Mallinckrodt*, 976 F.2d at 708). Nor did it argue that Lexmark acted beyond the scope of its patent. *Id.* Instead, it challenged whether Lexmark had a valid contract with the consumers of its product. *Id.* at 987. The circuit court determined that Lexmark presented sufficient unrebutted evidence that it had a facially valid contract because the language on the outside of the cartridge package specified the terms under which the consumer could purchase the item, which the consumer could read prior to determining whether to purchase the product. *Id.* It distinguished that case from instances in which the consumer did not have notice of the condition at the time of purchase. *Id.* at 987 n. 6.

The Lexmark Prebate Program next was addressed in *Static Control Components, Inc.* v. *Lexmark International, Inc.*, 487 F. Supp. 2d 830, 846-48 (E.D. Ky. 2007) ("*Static Control I*"), where the district court held that Lexmark's Prebate Program survived summary judgment due to the valid restrictive licenses contained on the packaging of the prebate cartridges. In so holding, it rejected the notion that the sale of the cartridges to the middlemen before the end user who is bound by the Prebate Program agreement constituted an unrestricted sale that exhausted the patent rights of Lexmark. *Id.* at 847. The district court relied, in part, on the Federal Circuit's guidance in *Mallinckrodt* that the legality of restrictive licenses "seems clear." *Id.* at 848-49 (citing *Mallinckrodt*, 976 F.2d at 704).

Following *Static Control I*, the Supreme Court granted certiorari in *Quanta Computer, Inc.* v. *LG Electronics, Inc.*, 553 U.S. 617, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008), to consider whether the license agreement for computer technology patents of LG Electronics precluded exhaustion of the patent rights of LG Electronics. LG Electronics had prevailed before the Federal Circuit on the basis that the agreement between LG Electronics and Intel imposed express conditions on the licensed products, that Quanta had express notice that Intel's sales were conditional, and that the conditions survived exhaustion under *Mallinckrodt*. *See LG Elecs., Inc.* v. *Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370-71 (Fed. Cir. 2006). The Supreme Court, however, did not expressly reference *Mallinckrodt* in its decision, holding that the License Agreement and Master Agreement between LGE and Intel were dispositive. *Quanta*, 553 U.S. 636-38. It reasoned that the License Agreement and the Master Agreement were independent instru-

ments, and the requirement that Intel notify its customers of use restrictions appeared only in the Master Agreement. *Id.* at 636. That restriction thus did not affect Intel's rights under the License Agreement, which imposed no conditions on Intel's ability to sell to consumers. *Id.* at 636-37. As such, the Supreme Court determined that the agreements broadly authorized Intel to sell the licensed products without restrictions or conditions such that the patent rights were exhausted, even though Quanta was aware of the condition. *Id.* at 637-38. In so holding, the Supreme Court stated: "The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638.

After *Quanta*, the *Static Control I* decision was reconsidered by the district court. In *Static Control II*, 615 F. Supp. 2d at 582, the district court held that *Quanta* represented a change in the law of patent exhaustion that broadened the understanding of patent exhaustion, and whereby a patent-based use restriction through post-sale prebate terms was invalidated. In reaching its decision, the district court considered *Quanta* as well as numerous other Supreme Court cases concerning patent exhaustion. *Id.* at 578-84. Upon consideration, the district court believed that the caselaw "reveals that the Court has consistently held that patent holders may not invoke patent law to enforce restrictions on the post-sale use of their patented products" and that after "the first authorized sale to a purchaser who buys for use in the ordinary pursuits in life, a patent holder's patent rights have been exhausted." *Id.* at 582. Applying those concepts to the Prebate Program, the district court determined that Lexmark "attempts to reserve

patent rights in its products through post-sale restrictions on use imposed on its customers[,]" which is "what *Quanta* says Lexmark cannot do." *Id.* at 584. The district court noted a distinction between a condition on the right to sell, as was at issue in *Quanta*, and a post-sale condition on use, like the Prebate Program, stating that the sales of Lexmark cartridges exhausted Lexmark's patent rights and stripped its ability to control post-sale use of the cartridges through patent law. *Id.* at 585. Based upon that analysis, the district court noted its belief that *Quanta* overruled *Mallinckrodt* sub silentio. *Id.* On appeal, however, the Sixth Circuit declined to decide the validity of the Prebate Program, noting that the question was extremely complex and unsettled, and that its resolution would not be relevant to the outcome of the appeal. *Static Control Components, Inc.* v. *Lexmark Int'l, Inc.*, 697 F.3d 387, 421 (6th Cir. 2012).

In *Princo Corporation* v. *International Trade Commission*, 616 F.3d 1318 (Fed. Cir. 2010), *cert. denied*, 2011 U.S. LEXIS 3703 (May 16, 2011), the Federal Circuit considered the doctrine of patent misuse in the context package licenses containing field-of-use restrictions for recordable compact discs and rewritable compact discs. Philips and Sony offered patent licenses to make the CD-R or CD-RW discs with a field-of-use restriction that limited the licensees to using the licensed patents to produce discs according to the Orange Book standards. *Id.* at 1322. Explaining that patent misuse in the licensing context is a doctrine that limits a patentee's right to impose conditions on a licensee that exceed the scope of the patent, the circuit court determined that it did not bar the intervenor from enforcing patent rights against Princo. *Id.* at 1322, 1328. In reaching its decision, the

circuit court relied upon *B. Braun Medical, Inc.* v. *Abbott Laboratories*, 124 F.3d 1419 (Fed. Cir. 1997) and *Mallinckrodt*, 976 F.2d 700, in explaining the rationale underlying the doctrine:

> As a general matter, the unconditional sale of a patented device exhausts the patentee's right to control the purchaser's use of the device thereafter, on the theory that the patentee has bargained for, and received, the full value of the goods. That "exhaustion" doctrine *does not apply, however, to a conditional sale or license,* where it is more reasonable to infer that a negotiated price reflects only the value of the "use" rights conferred by the patentee. Thus, express conditions accompanying the sale or license of a patented product, such as field of use limitations, are generally upheld. . . . . When those contractual conditions violate public policy, however, as in the case of price-fixing conditions and tying restraints, the underlying patents become unenforceable, and the patentee loses its right to sue for infringement or breach of contract.

Princo, 616 F.3d at 1328. The circuit court further recognized that the scope of the patent misuse doctrine is narrow because "the patent grant entitles the patentee to impose a broad range of conditions in licensing the right to practice the patent[.]" *Id.* at 1329.[3]

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[3] Although Lexmark also cites to *Monsanto Company* v. *Bowman*, 657 F.3d 1341, 1347 (Fed. Cir. 2011) and *Fujifilm Corp.* v. *Benum*, 605 F.3d 1366, 1371-72 (Fed. Cir. 2010), those cases are not helpful to the analysis of this issue. *Monsanto* cited

Here, the Court is persuaded to follow the reasoning of the district court in *Static Control II*. Consistent with the *Static Control II* court's analysis, this Court's review of the relevant caselaw does not reflect an endorsement by the Supreme Court of post-sale use restrictions once goods are placed into the ordinary stream of commerce. *See Static Control II*, 615 F. Supp. 2d at 578-83 (explaining relevant caselaw). Further, the Court cannot square the *Quanta* decision with the facts alleged by Lexmark as to its Return Program. In *Quanta*, the consumers had notice of the conditions of the sale, yet the Supreme Court still held that the patent rights of LG Electronics had been exhausted after the first unrestricted authorized sale by its licensee Intel. Those facts parallel this case. Lexmark does not allege that the authority of the sellers of the Return Program cartridges were restricted or conditioned in any way. In other words, the facts alleged by Lexmark do not suggest that the sellers had anything other than full authority to sell the Return Cartridges that practiced Lexmark's patents. Instead, Lexmark alleges only that the Return Program cartridges contained notices of a license restriction which bound the ultimate purchaser. Under *Quanta*, those post-sale use restrictions do not prevent patent rights from being exhausted given that the initial sales were author-

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Mallinckrodt only when explaining the Federal Circuit's reasoning in two cases decided pre-*Quanta*. *Monsanto*, 657 F.3d at 1347. Its decision, however, did not endorse those principles, holding that even if the patents had been exhausted as to the first generation self-replicating seeds, no authorized sale had occurred to exhaust the right in the second generation seeds. *Id.* As for *Fujifilm*, it considered *Quanta* in regards to the territorial requirement for patent exhaustion, which is not the issue presently before the Court. *Fujifilm*, 605 F.3d at 1371-72.

ized and unrestricted. Thus, to the extent that *Mallinckrodt* holds that such post-sale use restrictions preclude patent exhaustion after an authorized sale, the Court agrees with the *Static Control II* court that *Mallinckrodt* was overruled by *Quanta* sub silentio. *See Ninestar Tech. Co.* v. *Int'l Trade Comm'n*, 667 F.3d 1373, 1378 (Fed. Cir. 2012) (suggesting that an appellate court decision should not be found overturned by new Supreme Court precedent unless it is plainly inconsistent with that precedent); *Fujifilm Corp.* v. *Benum*, 605 F.3d 1366, 1371 (Fed. Cir. 2010) (similar to *Ninestar*); *Static Control II*, 615 F. Supp. 2d 575 (E.D. Ky. 2009) (similar to *Ninestar*). Although the Court recognizes that *Princo* cited to *Mallinckrodt* with approval in considering the doctrine of patent misuse, that case concerned license restrictions that limited the use of the patent to manufacture and produce the product in accordance with certain standards. It did not concern products that had been placed into the stream of commerce for use in ordinary pursuits in life. *Princo*'s reliance on *Mallinckrodt* thus does not demonstrate a continued endorsement of it in regards to the type of post-sale use restrictions at issue in this case.

A contrary holding would not only be inconsistent with *Quanta*, but would also create significant uncertainty for downstream purchasers and end users who may continue to liable for infringement even after an authorized sale to the consumer has occurred. Therefore, the Court is persuaded that the fully authorized sales of the Return Program cartridges to consumers for use in the ordinary pursuits in life took the cartridges outside the scope of the patent monopoly despite the notices contained on those cartridges, and Lexmark may not now rely on patent

law to hold Impression Products liable for infringement.

V. CONCLUSION

For the foregoing reasons, Impression Products' Second Motion to Dismiss (Doc. 395) is **GRANTED**. The infringement claims against Impression Products based upon the Return Program cartridges are hereby **DISMISSED**.

IT IS SO ORDERED.

s/Michael R. Barrett
Michael R. Barrett, Judge
United States District Court

APPENDIX D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF OHIO
WESTERN DIVISION

LEXMARK INTERNATIONAL, INC.

Plaintiff,

v.

INK TECHNOLOGIES PRINTER SUPPLIES, LLC, ET AL.,

Defendants.

CASE NO.: 1:10-cv-564

Judge Michael R. Barrett

OPINION AND ORDER

This matter is before the Court on the Motion to Dismiss of Defendant Impression Products, Inc. (Doc. 335). Plaintiff Lexmark International, Inc. has filed a response in opposition (Doc. 367) and Defendant Impression Products, Inc. has filed a reply (Doc. 368).[1] Defendant Impression Products, Inc. subsequently filed a Notice of Additional Authority (Doc. 485) to which Plaintiff Lexmark International, Inc. filed a response (Doc. 488). Defendant Impression Products, Inc. then filed a reply in support of its notice of additional authority. (Doc. 491). This matter is now ripe for review.

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[1] Plaintiff Lexmark International, Inc. subsequently filed a motion for leave to file a surreply (Doc. 378), which Defendant Impression Products, Inc. opposed (Doc. 379). That motion for leave has been denied.

I. BACKGROUND

This case concerns the alleged infringement of Plaintiff Lexmark International, Inc.'s ("Lexmark") patented toner cartridges. Lexmark alleges that it first sold the patented inkjet cartridges at issue outside of the United States. It claims that those patented inkjet cartridges were acquired and remanufactured by one or more foreign defendants that then sold the remanufactured inkjet cartridges to other defendants. Those defendants, in turn, sold the remanufactured inkjet cartridges to others, including customers in the United States. Lexmark contends that Defendant Impression Products, Inc. ("Impression Products") was one of those defendants that sold in the United States remanufactured inkjet cartridges that had originally been sold outside of the United States thereby infringing Lexmark's patent.

II. LEGAL STANDARD

In reviewing a motion to dismiss for failure to state a claim, this Court must "construe the complaint in the light most favorable to the plaintiff, accept its allegations as true, and draw all reasonable inferences in favor of the plaintiff." *Bassett* v. *Nat'l Collegiate Athletic Ass'n*, 528 F.3d 426, 430 (6th Cir. 2008) (quoting *Directv, Inc.* v. *Treesh*, 487 F.3d 471, 476 (6th Cir. 2007)). "[T]o survive a motion to dismiss[,] a complaint must contain (1) 'enough facts to state a claim to relief that is plausible,' (2) more than 'a formulaic recitation of a cause of action's elements,' and (3) allegations that suggest a 'right to relief above a speculative level.'" *Tackett* v. *M&G Polymers, USA, LLC*, 561 F.3d 478, 488 (6th Cir. 2009) (quoting *Bell Atlantic Corp.* v. *Twombly*, 550 U.S. 544, 127 S. Ct. 1955, 1965, 1974, 167 L. Ed. 2d 929 (2007)). A claim has facial plausibility when the

pleaded factual content allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged. *Ashcroft* v. *Iqbal*, 556 U.S. 662, 663, 129 S. Ct. 1937, 173 L. Ed. 2d 868 (2009). Although the plausibility standard is not equivalent to a "'probability requirement,' . . . it asks for more than a sheer possibility that a defendant has acted unlawfully." *Id.* at 678 (quoting *Twombly*, 550 U.S. at 556). However, the Court is "not bound to accept as true a legal conclusion couched as a factual allegation." *Papasan* v. *Allain*, 478 U.S. 265, 286, 106 S. Ct. 2932, 92 L.Ed. 2d 209 (1986); *see also In re Sofamor Danek Grp.*, 123 F.3d 394, 400 (6th Cir. 1997) (stating that a court "'need not accept as true legal conclusions or unwarranted factual inferences'") (quoting *Morgan* v. *Church's Fried Chicken*, 829 F.3d 10, 12 (6th Cir. 1987)).

III. ANALYSIS

The patent exhaustion doctrine generally provides that once a patentee has made an unrestricted sale of a patented article, the patentee loses its right to control the sale, offer for sale, or use of the article. *Bowman* v. *Monsanto Co.*, __ U.S. __, 133 S. Ct. 1761, 1764, 185 L. Ed. 2d 931 (2013); *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008). According to a 2001 decision of the Federal Circuit, the patent exhaustion doctrine is territorial. *Jazz Photo Corporation* v. *International Trade Commission*, 264 F.3d 1094, 1105 (Fed. Cir. 2001). That means that in order for patent exhaustion to apply, the authorized first sale must have occurred in the United States. *Id.* ("United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must

have occurred under the United States patent."). The *Jazz Photo* decision relies upon a United States Supreme Court decision from 1890 in which the Court held that an authorized sale of a good patented by another under the laws of a foreign country does not exhaust the patent rights of the United States patentee, and the United States patentee may sue for infringement when that good is imported into the United States for sale. *Id.* (citing *Boesch* v. *Graff,* 133 U.S. 697, 701-03, 10 S. Ct. 378, 33 L. Ed. 787 (1890)). Thus, under *Jazz Photo,* an initial authorized sale of a patented product outside of the United States would not exhaust the patent rights of the patent holder. *See id.*

Recently, the Supreme Court addressed the parallel "first sale" doctrine under copyright law. *Kirtsaeng* v. *John Wiley & Sons, Inc.*, __ U.S.__, 133 S. Ct. 1351, 1354, 185 L. Ed. 2d 392 (2012). The Supreme Court's decision was rooted in interpretation of a statutory provision of copyright law. *Id.* at 1357-71. Specifically, the Supreme Court considered whether the phrase "lawfully made under this title" restricts the scope of the first sale doctrine geographically. *Id.* at 1357 (citing 17 U.S.C. 109(a)). The plaintiff contended that "lawfully made under this title" imposed a geographical limitation that prevented the first sale provision from applying to its books first manufactured and sold overseas. *Id.* at 1357-58. The defendant, however, read the phrase as imposing a non-geographical limitation that required only that the book be made in compliance with the Copyright Act such that a first manufacture and sale abroad would extinguish the rights of the copyright owner. *Id.* at 1358. The Supreme Court determined that the plain language of the provision said nothing about geography and that interpreting the provision

not to provide a geographical limitation made linguistic sense and did not present the same difficulties as an interpretation that included a geographical limitation. *Id.* at 1358-71.

However, the Supreme Court's analysis did not end there. It next considered the context of the statutory provision. *Kirtsaeng*, 133 S. Ct. at 1360. According to the Supreme Court, the legislative history of the statutory provision indicates that Congress did not have geography in mind when writing the present version of section 109(a). *Id.* Additionally, it determined that other provisions of the current statute supported a non-geographical interpretation. *Id.* at 1361-62. For example, the "manufacturing clause," which limited importation of many copies printed outside the United States, was phased out in an effort to equalize treatment of copies made in America and copies made abroad. *Id.* The Supreme Court had difficulty squaring that "equal treatment" principle with a first sale doctrine that imposed geographical limitations. *Id.* at 1362.

The Supreme Court also considered whether canons of statutory interpretation favored a geographical limitation. In particular, it considered the common law history of the first sale doctrine by applying the cannon of statutory interpretation that "[w]hen a statute covers an issue previously governed by the common law," it is presumed that "Congress intended to retain the substance of the common law." *Kirtsaeng*, 133 S. Ct. at 1363 (citing *Samantar* v. *Yousuf*, 560 U.S. 305, n. 13, 130 S. Ct. 2278, 176 L. Ed. 2d 1047 (2010)). Applying that canon, the Supreme Court traced the doctrine back to the Seventeenth Century where Lord Coke explained the common law's refusal to permit restraints on the al-

ienation of chattels. *Id.* The Supreme Court noted that a law permitting a copyright holder to control the resale or other disposition of a chattel once sold is "'against Trade and Traffi[c], and bargaining and contracting." *Id.* (quoting L. E. Coke, Institutes of the Laws of England, § 360, p. 223 (1628)). It further recognized the same principle of freedom to resell can work to the advantage of the consumer and frees the courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods, and avoids selective enforcement inherent in any such effort. *Id.* (citing *Leegin Creative Leather Prods.* v. *PSKS, Inc.*, 551 U.S 877, 127 S. Ct. 2705, 168 L. Ed. 2d 623 (2007)). Accordingly, the Supreme Court determined that common law of the first sale doctrine "makes no geographical distinctions." *Id.*

The Supreme Court then considered the practical difficulties of placing geographical limitations on the first sale doctrine. *Kirtsaeng*, 133 S. Ct. at 1364. The libraries, in particular, would have difficulty maintaining their collections of foreign books that do not contain a copyright holder's present address or in negotiating fees for those copyrights after first sale. *Id.* at 1365-66. Other manufacturers and retailers of goods would face similar restrictions. *Id.* at 1365. A geographical limitation would prevent the resale of a car without the permission of the holder of each copyright on each piece of copyrighted automobile software, and it also would prevent retailers from buying and selling goods packaged abroad that contain copyrighted logos, labels, and instructions. *Id.* Similarly, museums would have to obtain the permission of a copyright owner to display a foreign work, even if the copyright owner already sold or donated the work to a foreign museum. *Id.* Also of some importance was

that many had relied on the first sale doctrine's protection in their businesses due to the unsettled nature of the doctrine. *Id.* at 1366.

Finally, the Supreme Court considered the defendant's arguments that a geographical interpretation was favored. *Kirtsaeng,* 133 S. Ct. at 1367-71. One particular issue addressed was the division of markets. *Id.* at 1370. The Supreme Court determined that there was "no basic principle of copyright law that suggests that publishers are especially entitled to such rights." *Id.* at 1370. Rather, "Congress enacted a copyright law that (through the 'first sale' doctrine) limits copyright holders' ability to divide domestic markets." *Id.* at 1371. That limitation is consistent with antitrust laws. *Id.* In the Supreme Court's view, "[w]hether copyright owners should, or should not, have more than ordinary commercial power to divide international markets is a matter for Congress to decide . . . [and the Supreme Court does] no more here than try to determine what decision Congress has taken." *Id.*

Based on the entirety of its analysis, the Supreme Court held that "[i]n our view, § 109(a)'s language, its context, and the common-law history of the first sale doctrine, *taken together,* favor a non-geographical interpretation. We also doubt that Congress would have intended to create the practical copyright-related harms with which a geographical interpretation would threaten ordinary scholarly, artistic, commercial and consumer activities." *Id.* at 1358 (emphasis added).

Here, the core dispute between Lexmark and Impression Products is whether the United States Supreme Court's March 19, 2013 decision in *Kirtsaeng,* 133 S. Ct. 1351, overturns the Federal

Circuit's decision in *Jazz Photo*, 264 F.3d 1094, such that Lexmark's patent rights were exhausted upon the first authorized sale abroad.[2] Other courts that have considered the continuing validity of an appellate court decision in light of new Supreme Court precedent have suggested that an appellate court decision should not be overturned unless it is plainly inconsistent with the Supreme Court precedent. *See Ninestar Tech. Co.* v. *Int'l Trade Comm'n*, 667 F.3d 1373, 1378 (Fed. Cir. 2012); *Fujifilm Corp.* v. *Benun*, 605 F.3d 1366, 1371 (Fed. Cir. 2010); *Static Control Components, Inc.* v. *Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575 (E.D. Ky. 2009).

In this instance, the balance of considerations weighs in favor of finding that *Kirtsaeng* is not plainly inconsistent with *Jazz Photo*. An obvious distinction between the two cases is that *Jazz Photo* involved patent law whereas *Kirtsaeng* involved only copyright law. Indeed, nowhere in *Kirtsaeng* is there any express mention or consideration of patents, the patent exhaustion doctrine, or patent exhaustion's territoriality requirement. Although a lack of express mention or consideration of the patent exhaustion doctrine does not automatically preclude application of *Kirtsaeng* to patent law, the Federal Circuit recently has reinforced that copyright cases are not "controlling" regarding patent issues. *Lifescan Scotland, Ltd.* v. *Shasta Techs., LLC*, 734 F.3d 1361, 2013 U.S. App. LEXIS 22332, at *38 (Fed. Cir. Nov. 4, 2013) (citing *Bobbs-Merrill Co.* v. *Straus*, 210 U.S.

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[2] In the context of patents, courts have used the term "patent exhaustion" interchangeably with "first sale." For clarity purposes, the Court primarily will refer to "first sale" in the context of copyrights and to "exhaustion" in the context of patents, except where otherwise necessary or appropriate.

339, 346, 28 S. Ct. 722, 52 L. Ed. 1086 (1908)). In fact, the Supreme Court historically has been reluctant to readily consider copyright cases and patent cases interchangeably, noting that the protections afforded by copyright law and patent law are different. *See Bobbs-Merrill*, 210 U.S. at 346.[3] Moreover, the Federal Circuit has acknowledged that the patent exhaustion doctrine does not squarely align with first sale provision of the Copyright Act, even though they are similar doctrines. *Fuji Photo Film Co., Ltd.* v. *Int'l Trade Comm'n*, 474 F.3d 1281, 1294 (Fed. Cir. 2007) (acknowledging that patent rights are exhausted through a first sale in the United States whereas "[a] different rule applies in the copyright context"). In that respect, the law weighs against finding that *Kirtsaeng* overturned *Jazz Photo* sub silentio.

Other factors also weigh against a finding that *Kirtsaeng* overturned *Jazz Photo*. The decision in *Kirtsaeng* is rooted in statutory and legislative interpretation of section 109(a) of the Copyright Act. 17 U.S.C. § 109(a). Noticeably absent from patent law is a codification of the exhaustion doctrine. Rather, the patent exhaustion doctrine, including its territoriali-

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[3] In *Bobbs-Merrill*, the Supreme Court was reluctant to accept patent law cases on first sale as being directly binding for copyright law. 210 U.S. at 345-46. There, the copyright owner relied on prior patent cases as supporting a right to impose conditions on sale. *Id.* at 342. The Supreme Court recognized that there were differences in the extent of protections granted by copyright law and patent law. *Id.* at 346. As such, *Bobbs* teaches that the common law on patent exhaustion does not automatically transfer to copyright law. The contrary presumably also is true – that is, that law on copyright's first sale doctrine does not automatically transfer to patent law's exhaustion doctrine.

ty requirement, is grounded in judicial precedent. *See Jazz Photo*, 264 F.3d at 1105. As such, unlike in *Kirtsaeng*, there is no statutory provision or legislative history of the exhaustion doctrine that favors a non-geographical interpretation. Thus, the core statutory text that weighed in favor of a non-geographical interpretation is non-existent in the context of patent law.

The lack of a codified patent exhaustion doctrine means that there may be more leeway for understanding and interpreting the doctrine. While Lord Coke's policy provides a natural starting place since that policy undergirds the patent exhaustion doctrine, it is not the only factor to be considered. *See Lifescan Scotland*, 2013 U.S. App. LEXIS 22332, at *39-40 (recognizing that the same policy underlying the first sale doctrine also undergirds the doctrine of patent exhaustion) (citing *Straus* v. *Victor Talking Mach. Co.*, 243 U.S. 490, 500-01, 37 S. Ct. 412, 61 L. Ed. 866 (1917)). Importantly, the patent exhaustion doctrine's history differs from the history of the first sale doctrine addressed in *Kirtsaeng*. In *Kirtsaeng*, the Supreme Court considered what common law of the first sale doctrine existed prior to the codification of the doctrine in the Copyright Act of 1909, which subsequently was superseded by the Copyright Act of 1976. *Kirtsaeng*, 133 S. Ct. at 1363. In doing so, it looked to the last Supreme Court decision prior to the 1909 codification to determine if it indicated any intent to impose a geographical restriction. *Id.* at 1353. Finding no geographical restriction in that Supreme Court precedent, the Supreme Court concluded that the common law principles set forth by Lord Coke still were followed at the time of codification and had never been modified by Congress. *Id.* at 1363. Since the doctrine of patent exhaustion is not

codified, the same reasons for considering and applying Lord Coke's principles are not present.

In contrast to the first sale doctrine, the patent exhaustion doctrine has evolved through Supreme Court and lower court decisions, and it remains premised upon those decisions. In particular, *Jazz Photo*, 264 F.3d 1094, is a decision that interprets the prior Supreme Court precedent on patent exhaustion to determine how it applies in the context of first sales abroad. The Supreme Court in *Kirtsaeng* did not specifically consider the evolution of a common law principle through Supreme Court decisions on patent exhaustion and the subsequent interpretations thereof. It also did not foreclose the possibility that the first sale principles articulated by Lord Coke could be and were modified by the Supreme Court and lower courts in the patent context. *See Kirtsaeng*, 133 S. Ct. at 1353 (considering whether a geographical distinction could be found in the Supreme Court case that first applied the first sale provision one year prior to its codification).

Moreover, *Kirtsaeng* suggests that Lord Coke's principles should not be applied in a vacuum. Rather, it is necessary to consider the context, history and practical considerations to determine the proper application of the patent exhaustion doctrine to first sales abroad. *See Kirtsaeng*, 133 S. Ct. at 1358. Part of that context and history is *Jazz Photo* and its progeny, the Supreme Court precedent on which *Jazz Photo* relies, other judicial decisions concerning the patent exhaustion doctrine, and the practical patent-specific implications of a territoriality requirement for patent exhaustion. Those particular considerations were not addressed in *Kirtsaeng* nor were

they thoroughly explained or analyzed by Impression Products.

While the Federal Circuit's recent decision in *Lifescan*, 2013 U.S. App. LEXIS 22332, may provide guidance as to how the Federal Circuit may apply *Kirtsaeng* upon reconsideration of *Jazz Photo*, it does not conclusively demonstrate that *Jazz Photo* is no longer good law. *Lifescan* did not concern the territoriality requirement of patent exhaustion. *See Lifescan*, 2013 U.S. App. LEXIS 22332. Instead, it raised a matter of first impression for the Federal Circuit – whether patent exhaustion applied to a product distributed for free. *Id.* at *33. Since there was no Supreme Court guidance directly on point, the Federal Circuit looked to prior Supreme Court precedent on the patent exhaustion doctrine in reaching its decision. *Id.* at *32-38 (citing *Bowman* v. *Monsanto Co.* __ U.S. __, 133 S. Ct. 1761, 1766, 185 L. Ed. 2d 931 (2013); *United States* v. *Univis Lens Co.*, 316 U.S. 241, 62 S. Ct. 1088, 86 L. Ed. 1408 (1942); *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 21 L. Ed. 700 (1873); *Bloomer* v. *McQuewan*, 55 U.S. (14 How.) 539, 14 L. Ed. 532 (1852)). After determining that the Supreme Court had never limited the patent exhaustion doctrine to sales only, it then looked to the holding in *Kirtsaeng* merely to reinforce its conclusion that the doctrine was not so limited, even though *Kirtsaeng* was not controlling on issues of patent law. *Id.* at *38. In particular, the Federal Circuit recognized that Lord Coke's principles undergird the patent exhaustion doctrine and do not draw any distinction between gifts and sales. *Id.* at *39-40. Therefore, considering the totality of the circumstances, the Federal Circuit determined a patentee cannot "circumvent the application of patent exhaustion

principles by distributing a product embodying a patent for free." *Id.* at *42.

Here, in contrast to *Lifescan*, the Federal Circuit has determined in *Jazz Photo* that Supreme Court precedent supports a territoriality requirement for patent exhaustion. Thus, Lord Coke's principles are not as easily relied upon as they are in regards to the matter before the Federal Circuit in *Lifescan*. While it is possible that upon revisiting *Jazz Photo* and its cursory reasoning, the Federal Circuit will now give more weight to Lord Coke's policy and the reasoning set forth in *Kirtsaeng*, it is not a foregone conclusion that the policy or the reasoning will be strictly applied. This Court adheres to the view that copyright law and patent law are not identical and offer different protections. Thus, it would be amiss to overlook the distinctions by adopting Impression Products' position that Lord Coke's principles, as applied to the Copyright Act's first sale provision, conclusively demonstrate that *Kirtsaeng* overrules *Jazz Photo* sub silentio.

Reinforcing this Court's reluctance to apply *Kirtsaeng* to patent law is the Supreme Court's denial of certiorari in a case that raised the precise issue currently before this Court. *Ninestar Technology Co., Ltd.* v. *International Trade Commission*, 667 F.3d 1373 (Fed. Cir. 2012), *cert. denied*, 2013 U.S. LEXIS 2409 (U.S., Mar. 25, 2013).[4] That denial of certiorari

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[4] The Federal Circuit had relied upon *Jazz Photo* in holding that United States patent rights are not exhausted by products of foreign provenance. *Ninestar Tech. Co.* v. *ITC*, 667 F.3d 1373, 1378 (Fed. Cir. 2012). In so holding, it rejected the argument that *Jazz Photo* had been overruled by *Quanta Computer, Inc.* v. *LG Elecs., Inc.*, 553 U.S. 617, 632 n.6, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008) because neither the facts nor the law in

was issued on the same day the Supreme Court remanded two others copyright cases to be considered in light of its decision in *Kirtsaeng*. *See Kumar* v. *Pearson Educ., Inc.*, __ U.S. __, 133 S. Ct. 1631, 185 L. Ed. 2d 614 (2013); *Liu* v. *Pearson Educ. Inc.*, __ U.S. __, 133 S. Ct. 1630, 185 L. Ed. 2d 613 (2013). That denial of certiorari, while not conclusive, certainly suggests that *Jazz Photo* remains for now the controlling case on whether patent rights are exhausted by a first authorized sale abroad.

In so ruling, however, the Court does not intend to determine that *Jazz Photo* ultimately should stand in light of *Kirtsaeng*. The Court is cognizant that many of the reasons for rejecting a territoriality requirement for copyright law may apply equally to patent law. Nevertheless, given the complete lack of consideration of the context, history and practical implications of international patent exhaustion in *Kirtsaeng*, the Court concludes that the Supreme Court did not intend to implicitly overrule *Jazz Photo* and that *Jazz Photo* remains controlling precedent on patent exhaustion abroad.

IV. CONCLUSION

Accordingly, Impression Products' Motion to Dismiss (Doc. 335) is **DENIED**.

IT IS SO ORDERED.

s/Michael R. Barrett
Michael R. Barrett, Judge
United States District Court

Quanta concerned the importation into the United States of a product not made or sold under a United States patent. *Id.* Thus, while the principles of *Quanta* may be subject to application for products first sold domestically, the Federal Circuit has rejected their application for products first sold overseas.